


# FINANCIAL CONTROL AND DELEGATION

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## FOREWORD

Indian Financial System as evolved under the British rule in India was characterised by extreme concentration of powers in the Finance Ministry/Department. This aspect of Financial Administration in the Government of India has been subjected to frequent reviews especially due to the pressures generated by developmental efforts under the Plans. The problem is to combine speedy execution of the developmental programmes with prudent financial management. In this book an attempt has been made to review the various schemes of delegations and their operation in the Government of India with a view to improving efficiency and the level of performance of development administration.

Prof. M.J.K. Thavaraj and Shri K.L. Handa have been doing considerable work in the area of Financial Control. This book embodies some of the results of their various studies. The Institute is happy to publish this work for the benefit of all those who are interested in the problems of Indian financial administration.

G. NATH

*Director*

INDIAN INSTITUTE OF PUBLIC  
ADMINISTRATION

NEW DELHI  
OCTOBER 15, 1972

## Preface

The progressive involvement of the Government in the developmental activities has emphasised the need for reforms in our administrative system and procedures. The considerations of efficiency and economy are more pronounced now than ever before because of the massive expenditure involved in the implementation of the programmes of socio-economic development. The unprecedented expansion in the scope and content of governmental activities has correspondingly increased the responsibility of the executing authorities for a speedy achievement of their programmatic goals. For an efficient discharge of their responsibilities, however, it is imperative that they are provided with the necessary operational facilities. Delegation of commensurate powers to match the responsibilities at the various levels of administration is a necessary ingredient of any attempt at reforms. Of the whole gamut of delegations, those pertaining to financial powers are of crucial importance

as their nature and extent would be a major factor in setting the framework for a speedy transaction of governmental business.

The focus of the present study, therefore, is on delegation of financial powers as an aid to effective financial control, its scope being restricted to the Government of India. The first chapter includes the conceptual aspects of the subject and outlines the constitutional framework and the budgetary processes, which set a background for a study of delegation of financial powers. This is followed in the next chapter by an outline of the developments in this field during the British Rule. The third chapter deals with the post-Independence administrative reforms enquiries conducted in the area of financial control and delegations. This is followed by a chapter on the various delegation schemes introduced by the Government of India from time to time. The fifth chapter includes the suggestions for reforms made recently by expert bodies like the Administrative Reforms Commission, the Study Team on Financial Administration, the Study Team on Machinery of the Government of India and its Procedures of Work and the Working Group on Financial Rules.

In the sixth chapter, an evaluation of the various delegation schemes has been done, based on a study of their working as revealed by the content-analysis of the relevant government documents and by the case studies made on specific issues. The Government having accepted the recommendations of the Administrative Reforms Commission for the introduction of Performance Budgeting, the subject of delegations has assumed a new dimension. Therefore, in the seventh chapter an attempt has been made to analyse the problem of delegations in its various implications under a system of Performance Budgeting. The last chapter deals with the system of financial advice and the role of the Financial Adviser in the context of the operation of delegated powers.

It is hoped that the monograph, covering up-to-date material on the subject, will be of use both to the practitioners and students of financial administration. The study has touched upon some of the sensitive areas in financial control and management which are likely to evoke controversy. We will, however, feel highly rewarded if the monograph is successful in provoking thinking of those concerned with or interested in the subject.

We owe a deep debt of gratitude to the Ministry of Finance and the various administrative ministries and their attached and subordinate offices for the facilities they provided us for conducting the study and for the necessary material made available to us for the purpose.

The authors being part of the Institute's Faculty could not have done much but for the sympathetic and kind cooperation of the Director of the Institute. We are highly grateful to him for the facilities he provided us.

New Delhi  
October 1972

M. J. K. THAVARAJ  
K. L. HANDA



# 1

## Introduction

Organisation is the essence of civilized life. The size of an organisation would depend upon the purposes to be served, nature and scope of the programmes and activities, techniques and methods employed and so on. In general, smaller organisations are characterised by unity of purpose, clarity of perspectives, limited scale and area of operation, simple method of work, proximity between members and so on, so that it is convenient to centralise managerial control. On the other hand, larger organisations involve multiplicity of purposes reflecting the diversity of interests; the scale of operation of the various programmes and activities are larger in magnitude and are performed in geographic locations far removed from the centre of the organisation; several layers of organisation appear between



the operating and top levels of management. The division of labour is so complex that it calls for diverse specialisations basically unrelated to one another. Under such an environment, to galvanise the entire organisation in terms of an agreed pattern of purposes, to delineate the broad purposes into specific objectives and goals, to evolve suitable programmes and activities reflecting the goals and objectives and to allocate the men, materials and machines between these programmes and activities on the basis of an agreed order of priorities, to commit the various individuals and groups to acceptable norms and standards of work performance and so on, become the important managerial tasks. Control arises in the processes of translating material and other resources into human purposes in the larger organisations. Controls in the form of systems, procedures, tools and techniques are exercised towards the accomplishment of specific goals and objectives based on certain norms and standards. The attainment of such specific goals and objectives targeted for the various parts of the organisation and responsible individuals furthers the realisation of the larger purposes of the organisation.

It is conceivable that in smaller organisations ownership and control vest in the same persons. This is largely true of the various types of organisations under the non-mechanised processes of production. Even after Industrial Revolution, the earlier forms of organisations, under individual proprietorship and partnerships of various kinds, did not result in any pronounced differentiation between those who owned and those who controlled. However, with the growing sophistications in technology and the consequent specialisations and division of labour, control of the organisations was increasingly vested in the non-owning professional executives or managers in an organisation. Joint-stock and corporate forms of organisation have further accelerated the processes of divorce between owners and executives. Consequently, in modern organisations the levers of internal control have become the prerogatives of professional managers whose stake in the ownership of the organisation may be limited. At the same time, the scale and complexity of the work involved as well as the distance between field and top levels of administration necessitates a clear-cut system of fixation of responsibilities for the operating and

intermediate levels of administration. The efficient discharge of these responsibilities would call for the equipment of the various echelons with adequate powers commensurate with their responsibilities. In other words, delegation is the process of establishing and maintaining effective working arrangements between the various operating personnel and the manager to whom they report. Powers so delegated would confer on the delegatee the right to utilise and commit resources and take other decisions (both administrative and financial) in the course of discharging his responsibilities.)

A deliberately planned system of delegations would establish the necessary network of authority relationships—both horizontal and vertical—within a complex organisation such as the government. Horizontal distribution of powers may be in terms of functional differentiation or organisational convenience. Vertical delineation of authority involves a downward assignment of responsibilities accompanied by adequate powers to decide and to act. (The need for delegations from higher to lower rungs of administration is as important as functional or departmentalisation of responsibilities within a complex organisation. (A good system of delegation should, therefore, be an inherent part of all large and progressive organisations.)

Apart from meeting the operational requirements, delegation of powers would enable the top management to devote its most valuable scarce resource—time—to the most important managerial responsibilities such as planning, policy-making, coordination, review and control while allowing the operating and intermediate levels enough elbow-room for accomplishing specific tasks of operation and supervision entrusted to them. (As prime-movers in the organisation, the top management cannot afford to delegate some of its important responsibilities such as decisions about the ultimate purposes of the organisation, the organisational framework and assignment of duties, discipline, review, evaluation, planning for staff development and training and so on.) Concentration of attention on such vital managerial responsibilities would enable the top management to sharpen the broader purposes and focus its perspectives besides providing creative and dynamic leadership to the rest of the organisation.

(One of the important objectives of delegation is to develop staff capabilities at different levels of the organisation. Quite

often power-mongering or empirebuilding proclivities would tempt managers to amass power for its own sake and not to share it with their subordinates. If at all they share or delegate powers, it would be in the nature of 'passing the buck'. It would be unfair to expect people at lower levels to do things which the superiors are unable to undertake. Where there are organisational compulsions to delegate powers they would do so with great reluctance, hedging the powers so delegated or interfere too often in the exercise of delegated powers and so on. Apart from militating against the broader interests of operational efficiency in the organisation, these tendencies would undermine the self-confidence of the subordinate personnel and stifle their initiative and enterprise thereby weakening the managerial potential especially in the lower echelons of the organisation.

The spirit of delegation demands that the powers delegated should synchronise with the responsibilities. For this purpose it would be necessary that both powers and responsibilities are clearly defined and it would be desirable to put these in writing as far as possible. Clarifications of the powers and responsibilities in unambiguous terms, codification of the general principles and development of standards, norms and yardsticks would contribute a great deal towards the success of delegation schemes. Setting up of norms and standards would introduce a greater degree of objectivity into the evaluation of work performed, review and appraisal. Trust is the basis of delegation. An amount of informal understanding will, therefore, be inevitable. But powers so delegated should not be circumscribed by restrictive conditions and hedging qualifications. At the same time, delegates should be encouraged to exercise their powers without fear or inhibitions. There should be room for bonafide mistakes within certain tolerance limits. Even the best of managers are liable to make mistakes under conditions of uncertainty. Lack of sympathetic appreciation on the part of the delegators of the risks and uncertainties characterising the decision-making environment and inquisitorial attitudes adopted by the external audit or parliamentary committees would discourage people from sticking their neck out and prompt them to play it safe. A successful scheme of delegation would, therefore, require a thorough re-orientation of the outlook and relationship between the various echelons involved in the scheme. Apart from a

favourable environment for a healthy and harmonious human relations and teamwork, suitable incentive schemes should also be evolved to motivate people to decide and act. Even the best of delegation schemes could flounder in an atmosphere of distrust and apathy on the part of those who are expected to operate the system.

A system of delegations would yield optimum results if delegation is preceded by a proper analysis of the objectives, programmes and activities, methods of work, workloads at various levels and so on, in order to ascertain the nature and extent of delegations required. The technique of job analysis may be of help in determining as to where responsibility and authority should be located and in what measure. Depending upon their respective needs, delegations should be made to all levels of staff and line organisations, *i.e.*, upper, middle and lower levels of management. It may be noted that the utility of delegation is considerably reduced if they stop at the level of departmental heads without further delegation, in adequate measure, to subordinate levels. Therefore, in determining the adequacy of delegated powers, it is important to pay serious attention to the pattern of re-delegations from the heads of departments to the lower echelons and field agencies. For a system of delegations to be effective, the powers delegated should seep down the line and be commensurate with the responsibilities to be discharged at various levels.

We have also to keep in view that the need for delegation would vary in the case of different organisations depending on their respective programme requirements and on whether they are to exercise such powers in normal times or in times of crisis and strain. The delegated powers should, therefore, vary according to the nature and quantum of work to be performed by the delegates. Also, delegation should be related, as far as possible, to posts and not to persons. The principles followed and the policies established for determining the quantum and nature of delegation should be disseminated throughout the organisation so that unwarranted exceptions are not sought for in the pattern evolved on accepted norms. The codification of procedures, rules and regulations to suit the delegation pattern would also go a long way in making a delegation scheme successful.

Similarly, delegation schemes once introduced cannot remain static for all times. They should be modified to suit the changing circumstances and situations. For instance, the financial limits specified in statutes and rules for such administrative actions as purchases, contingent expenditure, award of contracts, insurance of property, write off of losses, etc., may cease to be realistic after some time on account of changes in the economy, price levels and so on. Ignoring such changes would add to costs and become serious hindrance to prompt and effective administrative action. Renewal of the schemes based on periodic review may, therefore, become necessary. In this respect, consultations with the delegates might help to rectify some of the specific weaknesses revealed through their experiences. Involvement of the lower echelons in the revision of the delegation plans would increase their participation in the successful implementation of the schemes.

Though efficient performance at operating and intermediate levels of management calls for an appropriate system of delegation of powers, arming those who are not directly accountable to the owners with powers is beset with dangers of misuse and arbitrariness. The delegator never abdicates responsibility. Responsibility and accountability squarely rests with the delegator. That is why suitable controls over the exercise of delegated powers have been found indispensable. The mechanism of control employed within the organisation comprise of systems and procedures, rules and regulations, norms and yardsticks, tools and techniques and so on, governing the powers and responsibilities of the various operating and intermediate levels of the organisation.

In joint-stock companies ultimate control is exercised by the share-holders. But the responsibility of translating resources into organisational purposes is entrusted to the salaried managers who are made accountable to the shareholders for their performance. Though it is not uncommon that some dominant shareholders or their representatives are placed in executive positions, professionalisation of the managerial cadre has made accountability of the top executive to the owners less direct and more complex. Financial statements such as the balance sheet and profit and loss account are the principal documents in terms of which the share-holders judge executive performance.

In the case of Government, the concept of accountability is closely related to the concept of sovereignty. So long as the Divine Theory of State held its sway the rulers of various countries were accountable to no one except God. Even when secular theories were propounded by Hobbes, Locke and Rousseau the prolonged discussion amongst political students did not immediately result in any consensus as to who is sovereign. Though 'contract' was said to be the basis of government, Hobbes believed in absolute monarchy whereas Rousseau placed 'general will' at the centre of his formulation. Even the theoretical abstraction of the concept of sovereignty evolved by Austin made the location of sovereignty somewhat vague. Only the emergence of representative forms of governments, through protracted struggles between the monarchy and the people at large, firmly established people as the ultimate source of power. In practice, however, the elected representatives have been recognised as the fountain of all authority to whom the executive wing of the government is accountable.

Apart from lawmaking, legislative control over the executive (especially in financial matters) is sought to be achieved through its approval of the detailed expenditure and tax proposals, as well as through its scrutiny of executive irresponsibilities and irregularities committed in the course of implementation of the budgets. The auditor acts as the eyes and ears of the legislature in this regard. It is also an established practice that the legislature could examine the various estimates of expenditure both with regard to their form of presentation as well as to bring about economies through suitable modifications of policies implied in the estimates and the organisational framework for the harnessing of resources. Under the Cabinet System of government the most popular and leading elements in the legislature are placed at the apex of the executive arm though conventions and practices have evolved which have rendered such legislative control somewhat mild and ineffective. Even in countries such as the U.S.A. where the Doctrine of Checks and Balances permits greater freedom for legislative control, the experience is not materially different from those of the Cabinet system of government.

Despite these limitations, the formal aspect of accountability to the legislature requires that the executive conducts its

affairs in such a way that it is not exposed to serious adverse criticism. Hence the elected elements of the executive as well as the top layers of the administrative hierarchy are keenly interested in exercising such control over the various levels of administration to prevent irregularity and ensure efficiency and economy in operations. This is true both of the private and governmental organisations except that accountability to the legislature is less defined and more pervasive than that of the shareholders in the private sector. It must, however, be borne in mind that, though under the Cabinet System collective responsibility is formally recognised, individual members of the Cabinet are not always absolved of their responsibilities for the areas entrusted to them. The problem of control assumes great significance because the elected element which constitutes the buffer between the legislature and salaried executives is formally accountable to the legislature for the omissions and commissions of the various levels of the administrative hierarchy. It is in this context that the system of internal control assumes crucial importance.

In private business, budget is the direct responsibility of the chief executive though he may be assisted by a financial director/adviser/controller. Formulation of the master budget involves several allocative decisions reflecting the input requirements of the targeted levels of activity of the various parts of the organisation. In the government, especially where the Cabinet System is in vogue, the allocative function is assigned to the Ministry of Finance or similar departments. Though Finance Ministry enjoys this place of pre-eminence in financial control there can be a variety of patterns of financial control depending on the system of sanctions, fund control techniques, general financial rules and procedures, budget review practices and so on. Any study of delegations of financial powers will have an important bearing on the relationship between the finance department and spending departments as well as on the mechanism of financial control within the spending departments and agencies.

An understanding of the budgetary processes in their constitutional and administrative aspects is, however, important for a study of a system of delegation of financial powers in its proper perspectives. In the Government of India, the budgetary

process, generally, comprises of four stages, *i.e.*, (i) preparation of the budget, (ii) consideration and adoption of the budget by Parliament, (iii) execution of the budget, and (iv) review of the budget achievement and performance. The formulation of the budget is done by the Ministry of Finance with the active assistance of the administrative and executing authorities.<sup>1</sup> The administrative departments frame their estimates of receipts and expenditure and submit the same to the Ministry of Finance for approval and incorporation in the budget. The three main components of the budget estimates prepared by the administrative departments are : standing charges including maintenance expenditure; expenditure on schemes under execution; and expenditure on new schemes. The framing of estimates for standing charges does not present much of a difficulty and is more or less a routine matter. These estimates are of a type which, though may vary from year to year, do not depend much upon the volition of the administrative department concerned. They include items of expenditure like permanent establishment, travelling allowances, and ordinary contingent expenditure. Such estimates need not be subjected to detailed scrutiny unless the viability of the entire programme or activity is reviewed. The preparation of estimates of expenditure for schemes under execution is also not very difficult and can be done with a reasonable degree of accuracy. The past performance and an assessment of spending capacity in the coming financial year help framing of such estimates. The stage reached in the assembly of equipment and materials for the projects, the success achieved in mobilisation of manpower, etc., are also factors to guide the preparation of these estimates. The preparation of estimates of new expenditure or fresh charges, however,

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<sup>1</sup>Under the Indian Constitution, no expenditure can be incurred except in the manner provided in the Constitution and in accordance with the law made by Parliament. The President causes to be laid before Parliament a statement of the estimated receipts and expenditure of the Government of India for the next financial year, which is called the Annual Financial Statement or the Budget. The budget is the most important instrument of legislative control and executive management. Under the Financial Rules of the Union Government, the Ministry of Finance is responsible for framing the budget and its presentation to Parliament. It is also responsible for proper implementation of the budget after it is passed by Parliament and an Appropriation Act is enacted.



proves difficult in most of the cases. New expenditure includes, in addition to expenditure on all new services, also expenditure involved in additions to or extensions of an existing service, commitment or facility, *e.g.*, provision for new buildings, new roads, additions to existing establishments, grants-in-aid, contributions and similar other items of expenditure. The estimates for new projects have often to be based on mere expectations. In such a situation, therefore, it becomes difficult to assess in concrete and positive terms the financial commitments likely to arise in the next financial year.

The Ministry of Finance conducts a review of the various budget proposals submitted by the administrative ministries keeping in view if the different programmes have been accepted for implementation and also the targets laid out for achievement. Depending upon the quantum of total resources available, the Ministry of Finance takes the necessary budgetary decisions and formulates the budget for presentation to Parliament for their consideration and adoption.<sup>2</sup> This presentation of the budget to Parliament and the discussion thereon which follows mark the first stage of parliamentary financial control.

The discussion of the budget in Parliament provides the members with opportunity to review the working of the various departments and ministries. It also enables them to elicit information on the progress achieved in the implementation of the various programmes undertaken by Government. They might also critically examine the worthwhileness and the social and economic implications of the new expenditure proposals included in the budget. According to our Constitutional requirements, estimates have to be prepared by Government for each vote separately. Also, individual appropriations cannot be varied by the Executive by reappropriation of funds from one

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<sup>2</sup>The Annual Financial Statement or the Budget (as it is commonly known) of the Union Government is presented to Parliament in two parts : (1) the General Budget, and (2) the Railway Budget. The Railway Budget is presented to Lok Sabha earlier than the General Budget, and generally, in the third week of February. The Ministry of Railways is responsible for the formulation and presentation of this budget. The General Budget is laid before the Lower House on the last working day of February. A copy of each budget is simultaneously laid on the Table of Rajya Sabha.

vote to another. Any saving in a vote lapses to the Exchequer at the end of the financial year. An excess anticipated in a vote requires to be covered by prior parliamentary sanction.

After the budget is approved, an Appropriation Act is passed by Parliament authorising the Executive to incur expenditure against the allotments included in the various Grants. Financial control pervades through the various stages of budget formulation, presentation and authorisation, and comes in handy as a major tool of fiscal management of governmental activities. The Ministry of Finance plays a key role in all the stages of the process of financial control. In particular, and except to the extent of powers delegated to the administrative ministries, all sanctions for expenditure are issued with the concurrence of the Ministry of Finance.<sup>3</sup> Through the delegation of financial powers, however, the Ministry of Finance shares its responsibility for financial control with the administrative ministries during the implementation of the budget.

Parliament exercises financial control in the post-budget stage through the appointment of three committees, namely, the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings. The Comptroller and Auditor General of India—a statutory authority under the Constitution—acts as a watchdog of Parliament and conducts audit to see that the expenditure incurred by the Executive is on the purposes voted by Parliament and is within the sanctioned grants. It is also his function to ensure that the principles and rules of financial regularity and propriety are observed by the administrative authorities and executive officers. The cases of default, financial irregularity, misappropriation of funds and others, of neglect of financial propriety are reported by the Comptroller and Auditor General of India to the Public Accounts Committee for such action as it may deem necessary.<sup>4</sup>

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<sup>3</sup>The system of centralised control of expenditure by the Ministry of Finance does not apply to the Atomic Energy Department. The Ministry of Railways (Railway Board) has also got its own system of financial control. It may also be mentioned that the general system of financial delegations does not apply to the Ministry of Defence.

<sup>4</sup>The report submitted by the Comptroller and Auditor General requires detailed examination of a somewhat technical character. It also

*(Continued on next page)*

The functions of the Public Accounts Committee include examination of the appropriation accounts (accounts showing the appropriation of sums granted by Parliament) and the annual finance accounts, etc., of Government. While examining the appropriation accounts and the report of the Comptroller and Auditor General of India thereon, the Committee conducts itself through an elaborate system of investigations. It tries to ensure that the moneys disbursed were legally available and applicable to the service for which they had been applied; that the expenditure conformed to the authority which governed it; and that every re-appropriation had been made in accordance with the rules prescribed for the purpose. The review of the Audit Report by the Public Accounts Committee completes the cycle of Parliamentary financial control over appropriations granted to the Executive.

The nature of Parliamentary financial control would be a dominant factor in determining the type of financial control which the Executive evolves for discharging its responsibilities. However, the quality of the Executive financial control would be markedly observed in the whole superstructure of control

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involves an examination of official witnesses for the explanation and elucidation of points raised therein. Obviously, it would not be possible for Parliament as a whole to undertake this responsibility and find time needed for such an examination of the report. It has, therefore, assigned this function to a committee appointed by it for the purpose. The Public Accounts Committee thus formed, emerged soon as a powerful instrument in the control of public expenditure. This Committee which had been in existence in our country since 1921, was set up again in April 1950 after the promulgation of the Constitution of the Indian Republic. The Committee comprises of members from both the houses of Parliament—fifteen members elected by the Lok Sabha from amongst its members according to the principle of proportional representation by means of single transferable vote and seven members nominated by the Rajya Sabha. The Speaker nominates a member from the Lok Sabha to be the Chairman of the Committee. Members of the Committee are elected for a period of one year from 1st May to 30th April. To ensure continuity and experience in the Committee a convention has been established under which 2/3 of the members are re-elected for the term of another year. A minister is not eligible to be elected to the Committee. Also, a member of the committee if appointed a minister has to relinquish membership of the committee from the date of such appointment.

mechanism, as ultimately on it depends largely the efficient and economic functioning of the Government. In the rules framed by the President 'for the more convenient transaction of the business of Government of India' under Article 77(3) of the Constitution, the Ministry of Finance has been assigned a special position in regard to the management of the financial affairs of Government. The existing rules of business provide that, subject to general or special orders made by the Ministry of Finance, no department shall, without the previous concurrence of the Ministry of Finance, issue any orders which may :

- (a) involve any abandonment of revenue or involve any expenditure for which no provision has been made in Appropriation Act;
- (b) involve any grant of land or assignment of revenue or concession, grant lease or licence of mineral or forests rights or a right to water, power or any easement or privilege in respect of such concession;
- (c) relate to the number of grades of posts or to the strength of a Service or to the pay or allowances of Government servants or to any other conditions of their service having financial implications, or
- (d) otherwise have a financial bearing whether involving expenditure or not.

The above cited rules of business may give an impression that the powers of the Ministry of Finance, in regard to matters having financial bearing, are all comprehensive and leave hardly any financial powers for the administrative ministries to exercise. However, these provisions though appear to be unduly restrictive, also include an important proviso that the rules are exercisable subject to the general or special orders made by the Ministry of Finance. The rules thus envisage not only financial control by the Ministry of Finance but also financial delegations by it, which is quite important. It is under this provision that the Ministry of Finance can share its responsibility for financial control with the administrative ministries and executing agencies and may delegate financial powers to them. The various delegations made by the Ministry of Finance to the administrative authorities in respect of financial matters flow from this provision and the relevant rules like 'Delegation of Financial Powers Rules' derive their authority therefrom.

Financial Administration is a part of the total process of administration and is governed by the same principal objectives, needs and considerations as the system of administration as a whole. It is essential, therefore, that the financial system evolved should be of a type which subserves best the interests of Government in achieving its programmatic goals. A striking feature of executive financial control till Independence has been that it was centralised in the Department of Finance. Perhaps, this suited the needs of the administration of those days when the functions of the Government were largely limited to collection of revenues, administration of law and order and a few others incidental to the main functions. Since Independence and more so after the launching of the Five Year Plans, the Government has embarked upon a number of developmental and welfare activities designed to secure a speedy socio-economic development of the country. The governmental expenditures have increased tremendously both in size and complexity. This has resulted in immense expansion of governmental machinery both in respect of the number of personnel employed and in the spread of their locations. In this changed situation, many of the administrative and financial procedures we have inherited from our colonial past have become out of tune with the needs of the present-day development administration. The centralisation of functions in the apex bodies is likely to dampen efficient and responsive administration. The interests of efficiency and economy make it imperative that the higher echelons should concern themselves with and spend their time and effort in the formulation of policies and general guidelines for action leaving the actual implementation involving various administrative details to the care of the administrative and executive authorities down the line. Our faulty administrative practices have been severely criticised by well-known authorities on Public Administration like Paul H. Appleby, who has remarked :

“A general fault of the Indian Administrative process exists in the practice of seeking agreement on everything by everybody before anything is done. Worse, the practice requires that these agreements cover not only general objectives, general allocations of funds, general personnel arrangements, and the fixing of general lines of responsibility, but also cover specific applications of these general determinations

in a continuing and heavy flow....A more valid criticism, subject to fewer exceptions, would be the statement that before and after the fact too much attention is focussed on detail and that, consequently, general determinations have too little of their desired effect, which is to clear the decks for action. General determinations are not taken seriously enough. The budget provides an excellent example; it is not determined in fact when enacted, but is actually being made day after day throughout the year. (Detailed control after the fact of general determination has the effect of delaying, frustrating and even nullifying decisions made earlier at the highest levels.”<sup>5</sup>

Appleby was struck by the highly centralised character of Indian administrative system as well as the way in which matters of details continue to be referred to the central agencies for concurrence even though the decisions regarding budgetary allocations have already been made. Under our budgetary system, the position till the launching of the recent delegation schemes<sup>6</sup> was that the executing agencies could not proceed with the implementation of the budgeted programmes without securing itemised expenditure sanctions from the Ministry of Finance. Such a situation deprived the administrative ministries of the necessary feeling of participation in the processes of financial control and was responsible for blunting their financial consciousness.

A solution to the problem of centralisation has been considered to lay in the transfer of some financial responsibilities from the Ministry of Finance to the administrative ministries. This is particularly important if it is intended to provide the necessary operational facilities to the administrative ministries in the implementation of their developmental programmes. Moreover, the concentration of financial powers in the Ministry of Finance would result in considerable delays and consequent discontent, which it is the aim of a democratic and responsive administration to avoid. In the context of the present-day development administration, the centralised financial control as practised in the past has become redundant. The need for efficient and economic

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<sup>5</sup>Paul H. Appleby, *Re-examination of India's Administrative System*, O & M Division, Cabinet Secretariat, Government of India, 1956, p. 50.

<sup>6</sup>Delegation Schemes of 1958, 1962 and 1968.

implementation of programmes necessitates that the responsibility of the Ministry of Finance for financial control be shared with the administrative ministries, which should be delegated adequate financial powers for the purpose. Delegation of financial powers is an important aspect of a meaningful system of financial control on the part of the Executive.

It is proposed, in this monograph, to make a study of delegation of financial powers in the Government of India. The focus of the study is to trace the developments in this field especially in the post-Independence period and to examine whether the nature and quantum of powers delegated are adequate to meet the needs of contemporary administration. It is also intended to study the pattern of re-delegations from one level of organisation to its subordinate formations and within the organisations themselves. The related questions as to whether the powers delegated are being exercised by the delegates, and if not, what is it due to, will also be investigated. The various inhibiting factors and hindrances to the exercise of delegated powers are proposed to be listed and analysed to suggest possible remedies. The study, in short, is directed to maintaining a meaningful system of financial control through delegation of financial powers for achieving an efficient and economic implementation of the governmental programmes.)

## 2

# Developments Under British Rule

Soon after the responsibility for Indian Administration changed hands from the East India Company to the British Crown in 1858, the British introduced a highly centralised system for managing the financial affairs of India.<sup>1</sup> The machinery of financial administration as developed was in line with the British policy of consolidating their hold on the country and

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<sup>1</sup>Financial Control had been quite loose during the regime of the East India Company. This state of affairs was responsible in tempting and enabling most of its employees to amass large fortunes to be carried home—to England. The Crown, therefore, after taking over from the Company, attempted to introduce order and discipline in the financial administration of the country.



designed to suit the peculiar needs of the situation then prevailing.<sup>2</sup> In the process of evolving a system of financial control to facilitate governance of the country, the British Rulers inducted in India some of the institutions already functioning in England. A few necessary modifications were, however, made in these foreign institutions to suit the requirements of a colonial administration. (Some changes were also introduced in the system of financial control to cater to the constitutional requirements and the pattern of division of powers and responsibilities between the Secretary of State and the Governor-General.) High level determinations regarding delegation of financial powers, for instance, to Secretary of State, etc., were incorporated in the Acts and laws enacted by British Parliament. This legal framework of delegations had an important bearing on the way the functionaries at various levels discharged their responsibilities and organised their work.

After the transfer of power to the British Crown, the powers of the Government of India in regard to expenditure of funds were derived from the Act of 1858, and the necessary financial control was exercised at three levels, namely, the Secretary of State, the Governor-General and his Finance Member and the Provincial agencies. (The law required and made it the responsibility of the Secretary of State that he should submit an annual statement of the Indian finances to the British Parliament. It placed the entire responsibility for the financial administration of India on the Secretary of State. All the powers exercisable by the East India Company and the Board of Control were vested by the Act of 1858 in the Secretary of State to be exercised by him in certain cases in concert with a Council. A provision of the 1858 Act stated :

“The expenditure of the revenues of India both in India and elsewhere, shall be subject to the control of the Secretary of State in Council; and no grant or appropriation of any part of such revenues, or of any other property coming into

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<sup>2</sup>The British Government then was primarily interested in undertaking in this country a few activities only, namely, maintenance of law and order, collection of revenues, protection and furtherance of British trade through development of transport and communications—roads in the public sector and railways through Government guarantee. Some irrigation works were also undertaken.

the possession of the Secretary of State in Council by virtue of this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council.”<sup>3</sup>

Such a provision meant a complete concentration of powers in the hands of the Secretary of State. The Government of India did not even enjoy powers to impose any taxes or vary their rates. It had also no powers to raise any loans on the security of the revenues of India.

It was, however, not possible for the Secretary of State to administer each and every activity of the Government of India, mainly because of the distance involved between his Office in London and the Governor-General's Office in Calcutta. In view of this physical impossibility of exercising all the powers from such a remote place and in order to facilitate the work of the Government of India, the Secretary of State delegated strictly defined financial powers to enable the Governor-General to have a say in some of the aspects of the financial administration of India. These delegations authorised the Governor-General to create new offices of minor importance and to incur fresh expenditure within limits. (The delegations made by the Secretary of State underwent changes, from time to time, to suit the needs of changing circumstances.)

The financial control exercisable by the Secretary of State and the Governor-General was not confined to the Central Government alone but also covered the provincial activities. The responsibility of the Government of India, for many years in the beginning, spread over the management of the provincial finances also. There was a single budget of income and expenditure for the country as a whole, in which were incorporated all revenues whether collected by the Central Government or the provincial governments. (Under the constitutional arrangements of 1861, the centralisation of control over public finances in the hands of the Government of India was not in any way relaxed. To quote Gyan Chand :

“The revenues of India were treated as constituting one individual fund, and applied for purposes of the

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<sup>3</sup>The Government of India Act, 1858, cf. A. C. Banerjee, *Indian Constitutional Documents (1757—1939)*, Vol. II, (Second Edition) A. Mukherjee & Co., Calcutta, 1948, p. 19.

Government of India as a whole. The Government of India exercised sole control over the entire Indian revenues and were alone liable for all the demands that could be made thereon. The Provincial Governments had to apply to the Government of India for the means wherewith to satisfy their local needs, and for their guidance had no authoritative ruling as to the limit within which each department was to keep its total expenditure or expenditure on any one department. No additional expenditure, whatever its amount, could be incurred without obtaining the sanction of the Government of India. It is difficult to believe that the Provincial Governments could not even engage a peon on Rs. 10 per mensem without the previous permission of the Government of India, but that was the extent to which the centralisation was actually carried.<sup>4"</sup>

Also, commenting upon the nature of centralisation of financial powers in the Government of India, Sir John Strachey has observed the following :

"They (Provincial Governments) could carry out no improvement, great or small, for which the actual expenditure of money was required. If it became necessary to spend £ 20 on a road between the local markets, to rebuild a stable that had tumbled down or entertain a servant on the wages of \$ 10 a month, the matter had to be formally reported for the orders of the Government of India.<sup>5"</sup>

The Secretary of State exercised control over the expenditure of the Government of India in two ways. Firstly, the budget of the Government of India was required to be submitted for his approval and acceptance. Secondly, his control was ensured in binding the spending authorities to various codes and numerous executive orders issued by him prescribing limits in respect of each general subject of expenditure within which expenditure could be incurred without reference to him.

The approval of the Government of India's budget by the Secretary of State was followed by the issuance of a resolution

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<sup>4</sup>cf. Gyan Chand, *The Financial System of India*, Kegan Paul, London, 1926, p. 142.

<sup>5</sup>Vide, Strachey's *India : Its Administration and Progress* (3rd Rev. Edn.), Macmillan, London, 1903, p. 121, Quoted by Gyan Chand in *The Financial System of India*, 1926, p. 142.

specifying the monetary limits within which the Governor-General could incur expenditure without previous reference to the Secretary of State. Exception was, however, made in cases of emergency when the Government of India was authorised to spend any amounts considered necessary in its judgement and discretion. Also, in respect of those cases where the Government of India thought that a reference to the Secretary of State would cause such delay as to be detrimental to public interest it had been given the authority to incur expenditure of any magnitude.

The various codes and regulations which were drawn up to delineate the powers of the various levels of authorities helped greatly the processes of financial control. These codes specified the powers exercisable by different authorities in various fields of governmental expenditure. Fundamental Rules contained the powers of the Secretary of State in respect of establishment matters. The Civil, Public Works and Military Accounts Codes covered rules governing the preparation of the estimates and accounts and also contained the rules for the spending of moneys by the government officials duly authorised. The responsibility for enforcing these codes and regulations was entrusted to the Finance Department of the Government of India which was assisted in these functions by an organisation for audit. It may be mentioned that the Audit Authority then was not an independent body.<sup>6</sup>

The Finance Department thus acted as a watchdog to ensure that the instructions and orders of the Secretary of State were truthfully followed and the rules and regulations laid out in various codes were duly observed by the spending authorities.) In the discharge of these functions, the Finance Department acted as a custodian of the interests of economy and general financial propriety and many of its responsibilities and activities were determined accordingly. The budgetary system<sup>7</sup> provided

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<sup>6</sup>Audit Authority then had not been given any powers to challenge or question an expenditure which had been wrongly incurred or was not backed by sufficient authority. This defect was, however, partly removed with the promulgation of an Audit Order in 1889. This order was re-issued in 1893 with slight modifications.

<sup>7</sup>The credit for introducing the budget system in the Government  
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the Finance Department with adequate opportunity to exercise the necessary financial control over the spending authorities in the discharge of its responsibilities. The process of formulation of the budget afforded the Finance Department a good occasion : (1) to review the revenue and expenditure proposals of the administrative departments, (2) to scrutinise individual projects and items of expenditure to find out their suitability for incorporation in the budget, and (3) to insist upon the administrative authorities to follow certain uniform budgetary standards. Therefore, at the time of preparation of the budget, the Finance Department conducted a thorough scrutiny of the expenditure proposals submitted by the administrative departments and, before including such proposals in the budget, applied rigorous tests from the point of view of economy and to examine their consistency with the accepted policies of the Government. After the budget was passed, the Finance Department got another opportunity to carry out a detailed scrutiny of the expenditure proposals when references came to it for expenditure sanctions before the administrative authorities could incur expenditure. The inclusion of an item of expenditure in the budget did not by itself imply that the concerned administrative department was free to spend money on it. The administrative department needed to approach the Finance Department again to satisfy it as regards the various details of the proposed expenditure and to seek its concurrence to the issue of expenditure sanction. The rules of business provided that no proposal involving expenditure could be taken up for execution without the concurrence of the Finance Department.<sup>8</sup> The result of all this was that the Finance Department could examine critically, on a number of occasions, the expenditure proposals of the administrative departments. It could, at various stages, insist upon the administrative departments to work out their proposals in greater details both

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of India is due to Sir James Wilson, the First Finance Member of the Governor-General's Council. The first budget was introduced by him in 1860.

<sup>8</sup>This rule was retained even after the reforms of 1919 and of 1935. It has survived even in the present system though a number of exceptions have been allowed by the Ministry of Finance through general and special orders.

in their administrative and economic aspects and to provide further justification in support of their proposals. It could call for facts relevant for the consideration of the proposal and bring to the notice of the administrative departments its objections on possible extravagances and could even challenge the necessity for a particular item of expenditure.

Thus, for many years after taking over the administration of India, the financial control was centralised in the Secretary of State who was assisted in the process by the Governor General and the Finance Department. The powers of the Secretary of State were further enhanced in this respect in the Act of 1916. A provision of this Act read as follows :

“Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State-in-Council without the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of majority of such votes”.<sup>9</sup>

Thus, in addition to the enhanced powers conferred on the Secretary of State by the Act of 1916, the Act also clearly authorised him to delegate financial powers to the Government of India. It, however, remained obscure whether the powers delegated to the Government of India by the Secretary of State could be redelegated by the Governor-General to his subordinate authorities stationed at various places.

This anomalous situation was rectified by a set of financial rules formulated in 1917 which defined the limits up to which powers could be delegated by the Governor-General-in-Council to his subordinate authorities without reference to the Secretary of State. The powers delegated by the Secretary of State to the Government of India and by that Government to its subordinate authorities were later on reviewed and, on June 1, 1918 were published in the form of a Book of Financial Powers. This publication contained all the relevant rules at one place and therefore was an important landmark in the history of Delegation of Financial Powers.

### *Reforms of 1919*

The reforms of 1919 coupled with the functions of the

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<sup>9</sup>The Government of India Act, 1916.

Legislatures in the field of delegated legislation and appearance on the administrative scene of ministers responsible to the legislatures within defined spheres, brought to the fore and lent importance to the problem of delegations. The Act of 1919 provided :

“Subject to the provisions of this Act and rules made thereunder the expenditure of the revenue of India both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council, and no grant or appropriation of any part of these revenues, or of any other property coming into the possession of the Secretary of State in Council by virtue of the Government of India Act, 1858, or this Act shall be made without the concurrence of a majority of votes at a meeting of the Council of India.”<sup>10</sup>

This provision as such did not, however, mean any material difference in the role of the Secretary of State. But the proviso cited above, *i.e.*, “subject to the provisions of this Act and rules made thereunder” paved the way for delegations to flow downwards from the Secretary of State to the subordinate authorities. The enactment of the 1919 Act, thus, created another framework of relationships amongst the various levels of authorities and enabled establishment of a new network of delegations from the Secretary of State to the Central and Provincial Governments. The Government of India was delegated larger powers for the purposes of incurring expenditures. Exception was, however, made in respect of certain specified types of cases, where spending of moneys required prior concurrence of the Secretary of State. This was done to facilitate discharge of responsibilities by the Secretary of State to the British Parliament in respect of expenditures from Indian public funds.

The reforms of 1919 gave the Provincial Legislatures the right of voting for funds in respect of Transferred subjects. This necessitated relaxation of financial control insofar as provincial finance was concerned and also made delegation of enhanced powers to the governments in India imperative. The Secretary of State, therefore, delegated larger powers in respect of transferred subjects and intervened in such matters

<sup>10</sup>The Government of India Act, 1919.

only to ensure proper safeguards for the administration of central subjects; to decide questions arising between different provinces; to provide safeguards for the protection of imperial interests; and to determine the relationship of the governments in India with other parts of the British Empire, etc.

The Devolution Rules of 1919, in addition to providing the provinces with certain powers, also clearly defined the financial powers enjoyed by the various authorities at the Centre. It was, however, made necessary, under the Devolution Rules<sup>11</sup>, to seek the prior concurrence of the Secretary of State in respect of the following matters : (1) to the creation of any new or the abolition of an existing post in the All India Services; (2) to the creation of a post on a pay of Rs. 1,200 p.m.; (3) to the creation of a temporary post on a pay exceeding Rs. 4,000 p.m.; and (4) to any expenditure on the purchase of imported stores. Prior consent of the Secretary of State was also necessary in cases of : (1) sanction of pay and allowances of All India Services personnel, (2) expenditure of Governors, (3) revision of establishments involving an expenditure over a certain specified limit, and (4) public works estimated at more than Rs. 50 lakhs.

After the reforms of 1919, the control of the Finance Department consisted mainly in ensuring that the budget estimates were framed in a way as to reflect realistically the spending capacities of the administrative departments so that the actual expenditure approximated as nearly as possible to the original estimates. This was necessitated by the contemporary situation where the administrative authorities were inclined to over-estimate their requirements and would later underspend the sanctioned grants. This would leave a wide gap between the budget estimates as approved and the actual expenditure. The prebudget scrutiny of estimates submitted by the administrative departments was not found adequate and therefore a resort had to be had to control during the budget implementation stage. This was secured by insisting on the administrative authorities to seek the Finance Department's sanctions in various matters. The practice of making lump sum cuts by the Finance Department on the budget estimates prepared by the administrative

<sup>11</sup>Rule 27 and Schedule III of the Devolution Rules, 1919.



departments owes its origin during this period. The Finance Department with the support of the Public Accounts Committee resorted to the technique of applying a lump sum cut to the demand for grant as a whole to remedy the problem of loose budgeting by the administrative departments. These cuts were applied in addition to the detailed cuts on individual estimates already in vogue and were thought to cure the malady of under-spending by the administrative authorities of the sanctioned grants.

Another practice introduced in this period pertained to evolving a new feature which was incorporated in the system of financial control. Each head of department was made responsible for the control of expenditure with which his department was concerned. For this purpose, separate portions of the Grants were assigned to the various heads of departments who were made responsible to exercise control over expenditure against these budget grants. It was made incumbent on the departmental controlling officers to ensure that each expenditure was properly covered by a budget grant and that it was incurred in accordance with the rules and the normal canons of financial propriety. With a view to watching the progress of expenditure against the sanctioned grant and to keep his expenditure within the budgeted amounts, each controlling officer was required to examine his accounts and to get them verified and reconciled with the accounts maintained in the Accountant General's Office. The Controlling Officers, in addition to remaining posted with the up-to-date information regarding the progress of actual expenditure, were also expected to keep a track to the liabilities contracted which were ultimately to be met from the grants under their control. All these reforms accounted for some measure of expenditure control to be operated by the administrative departments themselves.

The Book of Financial Powers which was published in 1918 became completely out of date with the introduction of the reforms of 1919. The Devolution Rules of 1919 gave more and larger powers to the provinces and the earlier authority relationship between the Central Government and the Local Governments became obsolete. The Book of Financial Powers had, therefore, to be thoroughly revised in its composition and content. The revised edition of this Book was issued in 1922.

It excluded mention of those powers which were handed over to the provinces under the Devolution Rules. The Book of Financial Powers specified the powers of the various departments and subordinate authorities of the Central Government in respect of a number of matters including creation of posts, powers in regard to appropriation and reappropriation of funds, contingent and miscellaneous expenditure, grants-in-aid, purchase of stationery, write off of losses and waiver of recoveries, etc. It also specified the powers enjoyed by the various executing agencies like the Central Public Works Department.

### *The Act of 1935 and After*

The establishment of responsible government envisaged in the 1935 Act accounted for a significant change in the system of financial control. The rules of business, however, continued to assign to the Department of Finance a special position, and required that it should be consulted by the administrative departments in matters having financial bearing before such cases could be submitted for consideration to the Executive Council.

Though the institutional framework of the Department of Finance continued to be the same as before, greater attention came to be devoted by it to the formulation of the budget to meet the requirements of the increased legislative financial control following the 1935 Act. The changes brought about in the financial administration consequent upon the new constitutional reforms also necessitated revision of the existing codes and regulations pertaining to financial matters. A new edition of the Book of Financial Powers was, therefore, brought out in 1937, which incorporated the changes that had taken place in the delegation of powers between the years 1922 and 1937.

As some of the then existing codes were found to be overlapping in respect of different matters, the need was felt for the simplification, clarification and proper grouping of subjects. The changes in the structure of delegated powers and consolidation of the relevant rules and regulations concerning each subject into systematically organised codes led to the publication of a set of financial rules called the General Financial Rules, Treasury Rules, Account Code, Audit Code, etc. The information contained in these publications proved of immense help to the officers in transacting financial business. It promoted

the growth of financial knowledge so very essential for the efficient management of the finances.

The financial control exercised by the Secretary of State during this period was limited to the issuing of directions, etc.<sup>12</sup> The Governor-General was authorised to exercise all the financial executive authority and was made responsible for the financial operations of the Government of India. Any expenditure to be incurred from the revenues of the Government of India required his sanction either directly or through officers to whom the necessary powers were delegated. The extent of delegations to the various executive authorities in respect of powers of expenditure sanctions for different purposes were defined and incorporated in the Book of Financial Powers.

The outbreak of the Second World War threw up a new set of problems for the Central Government especially in the matters relating to procurement of supplies and war production. This necessitated delegation of enhanced financial powers to some of the authorities under the Department of Industries and Supplies to enable them to tide over their difficulties. With the conclusion of the War, however, the increased powers delegated to these offices<sup>13</sup> were withdrawn and the pre-war position restored.

Sir Richard Tottenham, who was asked by the Government of India to suggest reforms for the reorganisation of the Central Government machinery after the War for the purposes of carrying out successfully the plans for reconstruction and development over a series of years dealt with aspects of financial control in his report submitted in 1945-46. Sir Tottenham seems to have been greatly impressed by an article written earlier by Sir James Grigg, from which he incorporated an extract in his reports.<sup>14</sup> Commenting on the contemporary system of financial control, Sir Tottenham made out that an average

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<sup>12</sup>It was the responsibility of the Finance Department to see that such directions were implemented.

<sup>13</sup>After the War, some of these offices were either abolished or merged with other departments.

<sup>14</sup>The following was quoted by Sir Tottenham from the article of Sir James Grigg :

secretary disliked the idea that the views of the Finance Department on any particular point must necessarily be accepted. An administrative secretary was readily willing to accept advice than dictation. He resented having his proposals whittled down just for saving a certain amount of money. Such a state of affairs was also responsible in compelling the departments to pitch their demands on the high side while framing their expenditure proposals. Such a practice, Sir Tottenham thought, was unhealthy and ought to be stopped. Another cause for irritation was the practice by which a proposal sponsored by a

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"There is Treasury financial control, which rests in the last analysis on the Parliamentary procedure of Supply and Appropriation and the subsequent audit of expenditure by the Comptroller and Auditor General and the Public Accounts Committee. All of this is extremely complex and meticulous. From Gladstonian times we have inherited the habit of requiring specific Treasury authority for many of the details of expenditure even after the general policy has been approved by it and by Parliament. The doctrine "take care of the pence and the pounds will take care of themselves" still prevails.

But whatever may have been its efficacy in Mr. Gladstone's time, it pretty certainly ceased to have any potency when Mr. Lloyd George arrived at the Treasury and in fact it seems that it has transmogrified itself in practice into straining at the gnat and swallowing the camel. Anyhow, there can be no doubt that the requirement of detailed Treasury sanction involves a good deal of labour at both ends and it takes a lot of time. It also makes for a timid attitude on the part of the administrative departments.

Treasury control is particularly close in the realm of establishments. With the high development of Whitley Councils in the Civil Service there is a temptation to fit all Civil Servants into a few standard grades with uniform conditions, one of which, of course, is security of tenure. Numbers cannot be increased or varied between grades without Treasury sanction and altogether departments have so little latitude in staff matters that they must find it hard to organize their work as they would wish. I am sure that the Treasury will have to exercise their financial powers more in bulk and less in detail. This may involve changes in the form of Parliamentary Estimates and in the rules of audit, but it should be possible to ensure that only the irritations and none of the essence of control disappear. My own experience, indeed, both in this country and in India, leads me to believe that bulk control is more economical than itemized scrutiny." *cf. R. Tottenham, Reports on the Reorganisation of the Central Government, 1945-46, Government of India, Second imprint, 1955, p. 39.*

high authority in an administrative department was turned down by a much lower authority in the Finance Department. (Sir Tottenham was, therefore, of the opinion that greater efficiency and economy could be secured by developing the financial conscience of the spending departments and by considerably reducing the number of day to day references made to the Finance Department.) He remarked :

“No one would suggest for a moment the abolition of the Finance Department; but in support of the view advanced above it might well be argued that the present system of day to day control by that Department tends to blunt the financial conscience of the spending Departments and that better results, combined with a great decrease of work would be obtained by putting financial responsibility more squarely on the shoulders of the latter; by demanding of them a more intelligent forecast of their future financial requirements and a greater interest in the economical expenditure of their grants; and by providing them with Financial Advisers of their own for these purposes”.<sup>15</sup>

The period after the War and before Independence witnessed not too healthy an atmosphere for the operation of delegated powers.) This period was marked by the emergence of expenditures on reconstruction and development activities. Also, such a change in the content and the course of public expenditures gave rise to new problems of financial control. The overriding power vested in the Ministry of Finance to issue directives limiting the powers of the administrative authorities in any particular respect, whenever a situation demanded recourse to such an action, was invoked occasionally, and when used, made ineffective the powers delegated to the administrative departments. One such occasion arose when the Interim Cabinet was in power. The then Finance Minister issued a directive that no post at any level of the administrative hierarchy could be created by the administrative departments without the prior approval of the Finance Member of the Cabinet.<sup>16</sup> This directive nullified the powers

<sup>15</sup>R. Tottenham, *Reports on the Reorganisation of the Central Government, 1945-46*, Government of India, Second imprint, 1955, p. 13.

<sup>16</sup>The late Liaquat Ali Khan was the then Finance Minister.

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exercisable by the administrative departments even in those cases where they were authorised to create posts. This directive was, however, given up with the advent of Independence.

(It is apparent from the preceding paragraphs that the need for delegation of financial powers to various levels of authorities was recognised, from time to time, before Independence.) In the provinces, powers and duties of various functionaries, such as, from Patwari up to the Commissioner in the Revenue Department were delineated and made known to those concerned with such activities. Similarly in the Public Works Departments, functions and powers of various levels of officers from sub-overseer up to the Chief Engineer were clearly laid down. (These delegations were considered, by and large, adequate to meet the needs of administration of those days, which ran fairly smoothly in the context of the limited functions the Government had to discharge then.) The situation, however, changed after Independence.

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The argument put forth by him for resorting to such a measure was to prevent excessive growth of government personnel.

### 3

## Post-Independence Administrative Reforms Enquiries

The advent of Independence led to the transfer of powers from the Crown representatives to the popular and selected Ministries both at the Centre and in the Provinces. With the disappearance of the control hitherto exercised by the Secretary of State and the Governor-General, the respective Finance Departments of the Central and Provincial Governments became responsible for the financial management of their jurisdictions and came to be vested with and exercised the necessary financial control each in its own sphere of activity. Nevertheless, the system of financial control and the delegation of financial powers as they obtained in the pre-Independence period continued in their broad framework after Independence. The

stresses and strains of this system, however, soon began to be felt and the view point in favour of decentralisation as a means of facilitating operational efficiency and ensuring economy gained strength. This system was referred to and discussed in their reports by the administrative reforms enquiry committees appointed by the Government of India after Independence, such as, the Secretariat Reorganisation Committee<sup>1</sup> (August 1947) and the Economy Committee (1949). These two enquiries were followed by the report of N. Gopalaswami Ayyangar<sup>2</sup>, then a Cabinet Minister. Shri Ayyangar, in his report, voiced the complaint of the administrative ministries, especially those responsible for the development of economic and social services, that the Ministry of Finance was unwieldy and had centralised in it too many functions. It concerned itself not merely with the general financial policy of the Government or the main heads of public expenditure but also with every detail in the administrative execution of proposals. This entailed considerable delays in obtaining financial sanctions. Also, the Ministry of Finance often devoted itself to examining the technical aspects of schemes even though it was not adequately staffed for the purpose. Ayyangar considered the then prevailing system as slow, elaborate and expensive, which required to be improved in order to increase the responsibilities of individual ministries and to remove the sense of frustration prevailing among them. He thought that the problem was:

"To bring about such changes in machinery and procedure as would render the processes of expenditure sanction more intelligent, well-informed and speedy, and thereby remove the sense of frustration which afflicts, at any rate, several ministries and departments at present; and, at the same time, to tighten up the process of budget control of expenditure and to promote economy-consciousness and sense of financial responsibility throughout all administrative departments, which are the really effective safeguards against extravagance."<sup>3</sup>

Ayyangar, therefore, opined that a review should

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<sup>1</sup>Also known as Bajpai Committee or Officer Shortage Committee.

<sup>2</sup>N. Gopalaswamy Ayyangar, *Report on Reorganization of the Machinery of Government*, Government of India, 1949.

<sup>3</sup>*Ibid.*, pp. 29-31.



be undertaken of the extent to which more effective delegation of powers of expenditure sanction could be effected at different levels to different departmental authorities. He also advocated that the needed changes should be carried out for simplifying the procedures, tightening up control and locating personal responsibility to achieve a better maintenance of the necessary control.

However, with the emergence of new problems such as the rehabilitation of refugees, increase in defence expenditure, state trading, etc., some changes had taken place in the extent of delegated powers soon after Independence. It was felt that there was too much dependence on the Ministry of Finance for various matters and consultations with it involved inordinate delays resulting in slackening of the tempo of work, administrative inefficiency and uneconomic financial management. The Estimates Committee of the First Lok Sabha which examined the matter in their Second Report<sup>4</sup> thought that the control of the Ministry of Finance was more rigid on minor items of expenditure and lax on major items. The Committee considered the system of financial control as unsound and felt that the question of financial control on minor and major items of expenditure required re-examination. The Committee further stated:

"The present rules under which the Heads of Ministries or Departments have been vested with certain financial powers are in their opinion inadequate. There have been instances in which proposals involving some minor expenditure have remained under discussion between the Ministry of Finance and the administrative Ministry for weeks and months together without any settlement, while in regard to proposals involving huge expenditure there have been fewer discussions and quicker agreements between the Ministry of Finance and the Ministry concerned. The Committee consider that in order to avoid unnecessary delay in the day-to-day performance of the normal functions of a Ministry, greater financial powers in the field of minor items of expenditure should be devolved on the Heads of Ministries and Departments."<sup>5</sup>)

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<sup>4</sup>Estimates Committee (First Lok Sabha) Second Report (1950-51) on *Reorganisation of the Secretariat and Departments of the Government of India*, 1951.

<sup>5</sup>*Ibid.*, p. 11.

Broadly, the Estimates Committee advocated the principle that the itemised control should be delegated to the Heads of Ministries and the Ministry of Finance should be left free to devote more attention and thought to major proposals involving bulk expenditure. Such a course should speed up the disposal of government work, and would also give the necessary fillip to economy and the efficient working of the government's machinery. The Committee thought that the functions of the Ministry of Finance needed to be specified in clear and definite terms to ensure that there were no unnecessary inter-departmental consultations between the administrative ministries and the Ministry of Finance. It felt that the need was for a proper distribution and sharing of responsibility between the spending Ministries and the Ministry of Finance.

The First Five Year Plan which followed soon considered, among other factors, the system of financial control as having an important bearing on the efficiency of administration. The tremendous increase in public expenditure which national plans for economic and social development postulate emphasised the importance of securing economy through a sound system of financial control. According to the plan document, the objects of financial control should be to ensure: (1) that no wastage of resources occurs, (2) that public money is not misapplied, and (3) that for the money spent adequate results are obtained. It is through the close cooperation of the administrative authorities and the finance departments and by their sharing the responsibility for financial control that the fulfilment of such conditions could be ensured.

The launching of the First Five Year Plan emphasised the need for a review of the delegated powers to bring them in tune with the needs of development administration. The First Five Year Plan document stated:

"Financial procedures which, on the one hand, secure adequate control and, on the other, avoid too great an interference in carrying out their own programmes are essential to the efficient execution of the Five Year Plan."<sup>6</sup>

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<sup>6</sup>Planning Commission, *First Five Year Plan*, Government of India, 1952, p. 124.

✓ A. D. Gorwala who was requested by the Planning Commission to give his recommendations for reforms in public administration of the country remarked in his report :

“Another very important organisational defect which has added very greatly to the difficulties of administration is to be found in the relationship between the Administrative Ministries and the Finance Ministry. ✓ There are many bitter complaints some of them perhaps rather one-sided, against what is termed the woodenness and lack of discrimination of the Finance Ministry at the Centre. The Finance Ministry, it is said, centralises in itself the power of sanction, and even for small amounts of expenditure the administrative departments have to go to the Finance Ministry. Quite often, after many references to and fro, the administrative department drops the proposal, having come to the conclusion that the trouble in continuing to refer is greater than the object to be served by the expenditure. This does not mean that the expenditure is not worthwhile but merely that the referring officer is tired out. If the proposal is taken to a sufficiently high level, the expenditure is generally accepted. The process of taking\* it is often extremely burdensome.”<sup>7</sup>

✓ Gorwala thought that it would help matters if certain financial powers were delegated to the administrative ministries and heads of departments for contingent expenditure within the budget provision. ✓ In those cases where delegations already existed, Gorwala recommended that they should be made widely known to the government officials and necessary steps should be taken to ensure that such powers were exercised. He also suggested that the possibility of delegating enhanced powers to the administrative authorities should be investigated. ✓ He felt that the administrative ministries might be authorised to sanction temporary appointments up to a certain limit of pay and up to a period of six months. ✓ They might also be empowered to sanction expenditure on minor works within prescribed financial limits. ✓ To control any likely abuse of these powers, he suggested that a sample check could be held once a year.

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<sup>7</sup>A. D. Gorwala, *Report on Public Administration*, Planning Commission, Government of India, 1951, p. 42.

He considered as undesirable the practice whereby the Finance Ministry expressed its views on any matter referred to it even when such a matter had no financial implication. ✓Gorwala stated :

“What is really needed in financial matters is control and not interference. What would seem to be happening is exasperating interference in small matters leading to a great deal of waste of time, energy and frustration on the part of the administrative departments, that is, the greater part of government. This must be avoided.”<sup>8</sup> ✓

Paul H. Appleby, who was invited by the Government of India to carry out a survey of public administration in India, submitted his report in 1953. He found the system of financial control to be in rather too petty and in specific terms tending to undermine responsibility and the requisite discretion and to slow-down action. He remarked:

“On the whole, however, one is struck most by the extensiveness of efforts to guard and control in terms of very small amounts. The time spent in correspondence and conference over a single peon’s pay in many cases costs very many times the amount being haggled over. The procedure under which purchases are controlled extends to such laborious lengths in terms of such small amounts as to involve many times the real cost of any possible saving in the particular purchase.”<sup>9</sup>

Appleby thought that there was too much control of details than there was care for the larger effectiveness. Commenting on the criticism of inefficiency levelled against the Government, he stated :

“In so far as the criticism of ‘inefficiency’ is meant to imply a lack of frugality, I should say, rather, that the government is somewhat unwisely frugal—spending too much energy, and money, in pennypinching, and regarding too little the effectiveness and convenience of the conditions in which able-men work. This latter is intimately related to true efficiency in the service of the public interest. The

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<sup>8</sup>A. D. Gorwala, *Report on Public Administration*, op. cit., pp. 43-44.

<sup>9</sup>Paul H. Appleby, *Public Administration in India, Report of a Survey*, Cabinet Secretariat, Government of India, 1953, p. 7.

time of key officials is the most costly of all governmental costs, for on them the effective use of thousands of other persons depends. Similarly, time-consuming and delaying procedures over small expenditures may make concealed costs and involve costly delays in the pursuit of action objectives. The heritage from simpler days points rather in these directions than toward any tendency to carelessness and profligacy".<sup>10</sup>

According to Appleby, financial control would be more effective and appropriate if, within relatively wide limits, the deployment of available funds was left to the discretion of the administrative authorities. The exercise of such a discretion, he thought, was essential to a more effective discharge of responsibilities.

The Estimates Committee in their Ninth Report (1953-54) again commented upon the prevailing system of financial control as a source of annoyance in the quick implementation of plans and the speedy execution of works. It considered the system unsuited in the changed conditions in which the administration had to function then. The complicated and cumbersome procedures of the old system were a big hindrance to achieving the desired progress in the nation-building activities. Conditioned by the old system, the administrative ministries looked upon the Ministry of Finance as the organisation which should take decisions for them and the Ministry of Finance on its part felt obligated to scrutinise and criticise each and every proposal coming to it from the administrative ministries regardless of the importance or urgency of such a proposal. The Committee felt that the malady had become so chronic that even in those cases where the powers of final disposal had been delegated to the administrative ministries, they had often resorted to consultations with the Ministry of Finance to escape their responsibility in the making of the decision. The administrative ministries thought that the concurrence of the Ministry of Finance in a proposal relieved them of their responsibility and was a sure clearance for their decision. The Estimates Committee further remarked :

"A sort of suspicion has entered into the relationship between the Ministry of Finance and the Administrative Ministries.

<sup>10</sup>Paul H. Appleby, *Public Administration in India, op. cit.*, p. 7.

The Administrative Ministries' sole aim is to get their proposals through and the Finance Ministry's aim is that whatever money is being sanctioned is really spent on useful purposes. In this atmosphere and process, there are naturally Departmental bickerings, recriminations, mild sensations, Secretarial or Ministerial crises and consequently delay, bad planning, wasteful or infructuous expenditure and public criticism at Government's inability to proceed with the schemes according to schedule or efficiency. It is obvious that if this process is allowed to go on indefinitely, the whole administration will come to a stand-still and the structure will fall. We should take a realistic view of things and take stock of the present-day conditions and evolve a procedure which defines clearly the responsibility and functions of each component involved in spending public monies and to see that proper authority is accountable for its action. The Committee feel that concrete steps should be taken to achieve the end in view and to establish perfect cordiality between the Administrative Ministries and the Ministry of Finance and to see that one is complementary to the other and helps in the ultimate objective.<sup>11</sup>

The Estimates Committee, therefore, recommended that there should be proper planning of a scheme with detailed working out of its estimates before the Ministry of Finance is approached for approval and financial concurrence and before the administrative authorities actually embark upon the scheme. After approval of the scheme by the Ministry of Finance, it should be the responsibility of the administrative ministry concerned to manage its detailed execution and the spending of money thereon. For this purpose, the Committee suggested that the administrative ministry should be delegated adequate powers including those for varying or altering the amounts under the sub-heads of the scheme subject to the condition that the total outlay was not affected. To facilitate implementation of its recommendations, the Committee suggested that "the work of each department should be drawn up in minutest details and delegation of powers in regard to the various items of work

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<sup>11</sup>Estimates Committee, Ninth Report (First Lok Sabha), 1953-54, on *Administrative, Financial and Other Reforms*, Government of India, 1954, pp. 3-4.

to be disposed of by the various officers in the ministries laid down precisely so that there is no ambiguity or difficulty in the matter". According to the Estimates Committee, the aim should be to encourage and impel the officers at various levels to exercise their delegated powers and take decisions falling within their jurisdictions all by themselves.)

The Second Five Year Plan document laid stress on certain aspects for gearing up the administrative machinery to contribute its very best to the achievement of efficiency and economy. Firstly, it should be ensured that officers at various levels exercise the maximum responsibility and get the necessary opportunity for the discharge of such a responsibility. Secondly, suitable functionaries with assured competence should be provided with the necessary experience and training to prepare them for taking up higher responsibilities. Thirdly, efforts should be made to develop in the officers an attitude of urgency and speed in the execution of their tasks. Fourthly, the rigid procedures pertaining to personnel policies should be relaxed keeping in view the needs of development administration. Lastly, special efforts should be made to develop the correct human relations within each governmental organisation. The Second Five Year Plan document further states :

"A weakness in the present system of administration is the manner in which administrative control often tends to be exercised. In this connection two aspects may be specially mentioned. In the First Five Year Plan it was pointed out that a considerable part of the time of senior public servants was being given to work which was formerly done at lower levels. "Increasingly, while each agency of government is accepting new responsibilities, the stage at which effective decisions are taken within any department is being pushed upwards." There is still some tendency for the exercise of initiative and the making of decisions being concentrated at higher levels. The correction of this tendency is in part a question of organisation and methods; in part however, it involves a consideration of how best to utilise the available personnel resources and to encourage men to assume responsibility".<sup>12</sup>

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<sup>12</sup>Planning Commission, Government of India, *Second Five Year Plan* 1956, pp. 132-136.

The plan document emphasised the need for greater delegation of responsibilities to various levels of governmental organisations and functionaries in the interest of speedy disposal of work and the quick execution of the newly assumed tasks. These authorities should be provided with the necessary operational freedom to enable them to act with initiative and drive. The plan outlines :

“In general, it is desirable that the area of policy in which a Ministry or a secretariat has a special interest, should be distinguished as clearly and systematically as possible, and to the maximum extent, executive functions should be entrusted to separate units which are in a position to operate with minimum reference to the secretariat”.<sup>13</sup>

Thus, the need for delegation of larger responsibilities to authorities outside the central authority was pressingly felt in the Second Five Year Plan in order to achieve an efficient and economical implementation of the planned programmes. It might not, however, be disputed that increased responsibilities could be discharged by the functionaries with success only when there was adequate delegation of powers commensurate with such responsibilities.

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<sup>13</sup>Second Five Year Plan, *op. cit.*, pp. 132-136.



## 4

# Delegation Schemes Under the Plans

As a result of the persistently pressing demands for reforms made by the various Enquiry Committees and Expert bodies, greater financial powers were delegated in 1953 in respect of creation of posts and contingent expenditure. These powers were further enhanced in 1954 and again in 1955. The powers delegated in 1955 authorised the administrative ministries to create posts up to the rank of Under Secretary<sup>1</sup> for a period of two years and to sanction up to Rs. 1,000 recurring in respect of contingent expenditure and Rs. 5,000 in respect of miscellaneous expenditure per annum.

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<sup>1</sup>The post of Under Secretary for the I.A.S. then carried the pay scale : I.A.S. 800-50-1000-50-1300-50-1800 plus Special Pay of Rs. 200 p.m. and DA of Rs. 40 p.m.

A. K. Chanda, the then Comptroller and Auditor General of India, who undertook the task of preparing a plan for delegation of financial powers and for a reorganisation of the system of financial control, submitted his proposals for the consideration of the Public Accounts Committee<sup>2</sup> of Parliament. While pin-pointing the defects in the existing system he recommended that, to avoid delays in the issue of expenditure sanctions, the particulars of the proposals referred by the administrative ministry to the Ministry of Finance at the pre-budget review stage should be furnished in greater detail to enable the Finance Ministry to carry out a better and more systematic pre-budget scrutiny. This process may not require the administrative ministries to provide complete details of the schemes but they may furnish those details sufficient to enable the Finance Ministry to take a view of the scheme as a whole including its costs. Chanda thought that it would be enough if the total cost of a scheme and its breakdown by categories of expenditure, such as, (1) staff and allowances; (2) works outlay; and (3) contingencies, was submitted for financial approval. These details should be sufficient for the Finance Ministry to examine the proposal and sanction the scheme. Within the sanctioned scheme and subject to the ceilings prescribed and to the provision for particular categories, the administrative ministries could be delegated powers to sanction further details both of staff and of expenditure. Chanda, in other words, advocated sharing of financial responsibility between the Ministry of Finance and the administrative ministries, by demarcating areas of operations between them. (His suggestion was that overall financial control regarding financial policies and principles should vest in the Ministry of Finance and the detailed scrutiny of proposals at expert level should be the responsibility of the administrative ministries.) Thus, according to his recommendations, the financial scrutiny should be in two parts, firstly broad and overall scrutiny carried out in the Ministry of Finance, and secondly, detailed scrutiny, at expert level, conducted in the administrative ministries.

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<sup>2</sup>A. K. Chanda formulated his plan on Estimates and Financial Control and included it as an appendix to the Audit Report (Civil), 1955-56, Part I.

He further remarked :

“It might be prudent that a project study together with the estimates and a phased plan of expenditure is prepared in a Ministry in collaboration with its internal finance officers and technical experts and is transmitted to the Finance Ministry to get this examined also by the technical experts of the Planning Commission where necessary as an independent check and then accord its sanction and make budget provision. Once this has been done, further responsibility will devolve on the administrative Ministries which will refer back to Finance only if there is any appreciable change in the scope of the scheme or if the provision made is likely to be exceeded by more than 5 per cent. Under this scheme of things, estimates will be more realistic thus obviating the detailed check to which they are now subjected in the Finance Ministry. . . . Finance Ministry will continue to be responsible for rules and regulations and for observance of uniformity in the scales of pay and allowances and other conditions of service throughout the structure of Government machinery. If it is proposed to give any special pay to any officer or to create posts on special scales, the concurrence of the establishment divisions will be necessary. Subject to the observance of these principles, the delegation of financial authority should be adequate to enable the Ministries to create posts up to and including Under Secretaries, provided, of course, the budget allotment is not exceeded.”<sup>3</sup>

Such a readjustment in the relations between the Ministry of Finance and the administrative ministries, according to Chanda, would yield the expected results of speedy execution of the projects and programmes only if it was accompanied by delegation of adequate powers by the administrative ministries to all levels of executive officers under them. He thought that the heads of departments and other Executive officers were hampered in their work and felt frustrated because of lack of sufficient delegations to them. even in those cases where these functionaries enjoyed delegated powers, interference in their work by the higher authorities undermined the effectiveness of

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<sup>3</sup>Audit Report (Civil), 1955-56, Part I.

the exercise of such powers by them. Chanda, therefore, recommended that 'there should be de-concentration of authority in favour of executive and project officers at all levels appropriate to their responsibilities and status.' He also suggested that the delegations already made to functionaries like the Chief Engineer and officers of the Central Public Works Department and other departmental heads, should be reviewed to take account of : (a) the loss in the purchasing power of the rupee; and (b) the increased workload which had developed upon these officers. Chanda proposed that every officer exercising delegated financial powers should submit a monthly schedule of sanctions to the authority immediately superior to him. This would enable a review of the manner in which delegated powers had been exercised. Corrective measures could be taken in cases where the delegated powers had not been properly exercised and suitable adjustments effected.

The Public Accounts Committee which considered the suggestions of Chanda in its Eighth Report (1957-58) on Budget Estimates and Financial Control, by and large, accepted his recommendations. The Committee emphasised that, so long as the provision made in the budget was not exceeded and there was no change in the scope or the total cost of a project, the administrative ministry should have freedom to incur expenditure without having recourse to consultation with the Ministry of Finance. According to the Committee, delegations of powers to the administrative ministries for incurring expenditure within the approved budget raised two important issues, firstly, of powers of reappropriation, and secondly, of powers over establishment expenditure. Commenting on the powers of reappropriation vested in the administrative ministries the Committee remarked :

"With regard to powers of reappropriation the Committee understand that present Ministries have wide powers to reappropriate funds without reference to Finance. They are not sure whether it would be proper continuing to vest these powers in the changed set-up. While it is true that the estimates under each item will be scrutinised thoroughly and pruned by Finance thereby leaving no scope for reappropriation, the Committee feel that effective financial control cannot be exercised unless the Finance Ministry is consulted as soon as it becomes apparent that the item of

work in question cannot be completed within the limits of expenditure approved by the Finance Ministry. The administrative Ministry should not, therefore, have the power to reappropriate funds without the prior concurrence of Finance."<sup>4</sup>

✓ In regard to the second question of establishment expenditure, the Committee considered it necessary and desirable that the Ministry of Finance should control pay scales and financial and service rules and regulations. Such a course would ensure uniformity and efficiency in administration.✓

The Committee felt that it would be necessary especially in the earlier stages to watch whether the delegated powers were properly exercised by the delegates. Those of the cases where the powers were improperly exercised because of inexperience of the delegates or errors of judgement on their part should be distinguished from those due to wilful negligence and dealt with suitably.

The suggestions made by the various experts and by the financial committees of Parliament set the thinking in Government and outside in favour of large delegations of financial powers to administrative ministries. ✓ A real break-through of importance, however, came in 1958, when the Government of India sought to delegate enhanced financial powers to the administrative ministries. A Scheme of Delegations was introduced by the Government of India from August 1958<sup>5</sup> which vested the administrative ministries with considerably larger powers, not enjoyed by them before. The main features of the Scheme were the following :

- (1) The powers of the administrative ministries to create temporary posts up to a period of two years were enhanced to include posts up to a pay scale of Rs. 2,250 p.m. It may be noted that under the earlier scheme the ministries could create posts only up to the rank of Under Secretary. The ministries were also

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<sup>4</sup>Public Accounts Committee (Second Lok Sabha), 1957-58, Eighth Report on Budget Estimates and Financial Control, Government of India, 1958, p. 7.

<sup>5</sup>Government of India, Ministry of Finance (Department of Expenditure), Office Memorandum No. F. 9-(5)-E (Coord.)/58, dated the 18th, August 1958.

empowered to create permanent posts in Classes II, III and IV as against Classes III and IV only allowed for under the earlier scheme.

- (2) Subject to certain conditions, administrative ministries were authorised to issue expenditure sanctions on any scheme the total expenditure of which did not exceed Rs. 50 lakhs. For the purpose of applying the limit of Rs. 50 lakhs, the entire cost of the scheme up to the date of completion (both recurring and non-recurring) including the cost of works (even where the provision relating to such works was made in a budget head not under the control of the Ministry) was to be taken into account.
- (3) The administrative ministries were delegated full powers without any monetary ceilings in respect of grants-in-aid and loans where schemes and the pattern of grants and loans were already approved by the Ministry of Finance. This was, however, subject to budget provision and availability of funds and the instructions contained in the General Financial Rules.
- (4) The administrative ministries were also delegated full powers in regard to miscellaneous expenditure and expenditure on contingencies and purchase of stores (other than works). Similarly, for expenditure for the local purchase of stationery stores, they were delegated full powers without any ceilings subject to the concurrence of Chief Controller of Printing and Stationery.
- (5) The administrative ministries were to consult the Ministry of Finance in respect of contracts and purchases only when their value exceeded Rs. 25 lakhs. If a contract extended over a period of time, its total value over the entire period of its currency would be taken as the value for the purpose of this limit. In the case of any negotiated or single tender contract the limit was Rs. 10 lakhs. The Finance Ministry was also to be consulted in case of any indent for stores of a proprietary nature the value of which exceeded Rs. 5 lakhs and in all cases involving an agreement or contract for technical collaboration or consultancy

services with foreign governments or firms.

- (6) The administrative ministries were delegated powers to reappropriate funds in all matters except in the following cases which required concurrence of the Ministry of Finance : (a) Re-appropriation to augment the provision under the primary units relating to 'Pay of Officers' and 'Pay of Establishment' either for a scheme or for other types of expenditure; (b) Re-appropriation between the primary units under which provision was made for a scheme which involved the augmenting of the provision under any one such unit by more than 5 per cent or by more than Rs. 1 lakhs whichever was less; and (c) Re-appropriation from the provision made for a scheme to meet expenditure on any other purpose.

The attempt all through the scheme of delegations of 1958 was to decentralise the financial powers. (The scheme also intended that the administrative ministries should, in their turn, delegate, to the maximum extent, administrative and financial powers to the heads of departments and also to other subordinate authorities with due regard to their respective levels of responsibilities.)

The question of making improvements in the arrangements for budgeting and financial control, to secure speedy implementation of development plans and greater efficiency in administration, continued to engage the attention of the Government even subsequent to the reforms of 1958. A paper prepared by the Planning Commission on "Measures for Strengthening of Administration and Improving Implementation" dealt, among others, with the important problems of financial control. This paper prepared in August 1961 also considered the working of the Delegation Scheme of 1958. It stated :

"According to the Ministry of Finance, the Scheme of Delegations has not had a chance to work as intended mainly because Ministries have not found it possible as a rule to furnish adequate details of their schemes before the framing of the budget. On the other hand, there is a feeling that the new procedure has not materially reduced the need for consultation with the Finance Ministry specially in establishment matters and that there is need

for a much larger measure of delegation of powers to individual Ministries in the use of funds provided in their budgets.”<sup>6</sup>

The paper distinguished the problems faced in the control of expenditure in respect of projects and schemes from those pertaining to staff and their salaries. In regard to projects and schemes, enough time and personnel were not assigned for proper planning and therefore the estimates submitted by the administrative ministries were frequently incomplete and defective. The suggestion contained in the paper therefore was that the administrative ministries should be adequately staffed with personnel for thorough planning of projects and schemes and also the Ministry of Finance should be similarly equipped for a proper study of their cost estimates. The paper further stated that, if there was careful planning and close association from the beginning between financial and technical experts after funds had been budgeted, references to the Finance Ministry should be required only where substantial variations took place in the scope or in the costs of a project. As regards the question of staff and their salaries, the paper maintained that departments should have much greater discretion in determining their staff structure and requirements. This was, however, without prejudice to or detracting from adherence to agreed financial limits and to standards based on approved practice or on systematic works studies. (The paper also recommended that there should be a review by the administrative ministries of the delegations of powers made to their subordinate executive departments with a view to providing them with larger delegations of authority.)

In another paper on “Administrative Capacity” prepared by the Organisation and Methods Division of the Government of India, it was stated :

Need of  
Deleg.  
“Delegation is necessary in an administration growing rapidly in responsibilities but it is paradoxical that, in the present situation, there are increasing pressures for centralisation of authority and responsibilities. The limitations,

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<sup>6</sup>Government of India, Organisation and Methods Division, Cabinet Secretariat, *Papers on Measures for Strengthening Administration*, August 1961, p. 11.



in the environment, to delegation should be realistically appreciated along with consequent delay and circuitous procedures in decision making. It should be possible to identify factors of change on a continuous basis so that administration could be modulated appropriately in the future. Administrative changes have to keep pace with trends in institutional, power, social and economic structures of the society. It is not possible to distinguish easily between deliberate refusal to undertake responsibility adequate to the job and inability to shoulder responsibility due to lack of capacity or proper training. It is natural, therefore, that the first attempt should be to remedy the latter factors before action could be taken on the former grounds against incorrigible officials. The Finance Ministry itself should review the broad distribution of its time on different objectives and give greater attention to procedure involving bulk control, cost reduction and preparation of estimates adequately and not itemised control as in some cases at present.”<sup>7</sup>

The paper emphasised that the delegates should be encouraged to exercise their powers. Any tendency on their part to consult senior officers on minor issues should be suitably curbed even by returning the papers submitted by them without passing any orders and thereby compelling them to make decisions and take responsibility. It should, however, be ensured that the junior officers did not suffer for any bonafide mistakes made by them in the process of exercise of their delegated powers.

The problem of improving administrative efficiency and standards continued to engage attention in Government and protracted discussions were held particularly in the context of the third Five Year Plan for speedy implementation of the plan projects. The Government prepared a statement outlining its decisions on measures necessary to be taken for administrative improvements. This statement was laid on the table of both the houses of Parliament in August 1961. The statement included the following observation regarding measures for delegation of financial powers to the administrative ministries :

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<sup>7</sup>Organisation and Methods Division, *Papers on Measures for Streng-*

"The present system of financial control should be reorganised. Itemised examination of financial proposals should be confined only to vital matters. Financial responsibility should be devolved, in liberal measure, on the administrative ministries and by them, in turn, on the implementing authorities. The control of the Ministry of Finance should be exercised through pre-budget scrutiny and by adequate reporting, random checks and work studies in such fields as may be considered necessary."<sup>8</sup>

*Scheme  
1961  
ministry*

While referring to the concrete proposals worked out to give effect to such broad objectives, the statement narrated that a scheme had been finalised for introduction in the Ministries of Commerce and Industry, Information and Broadcasting, Community Development and Cooperation and the Department of Food. The important features of that scheme included : (1) formulation of a programme for intensive pre-budget scrutiny between the Ministry of Finance and administrative ministry necessitating the preparation of budget estimates earlier than usual in cases in which actuals of the last year were not an important consideration; (2) further liberalisation of financial powers to the ministries in order to avoid references to Finance Ministry in the post-budget period except on vital matters; and (3) the exercise of control of important financial aspects by the Finance Ministry through an adequate reporting system and test checks. It was further mentioned in the statement that the Ministry of Finance was taking the necessary measures to strengthen its machinery for scrutiny of project estimates and their financial review.

As a result of these decisions and recommendations, the Ministry of Finance (the Department of Expenditure), introduced in September 1961, on an experimental basis, a scheme based on devolution of a greater measure of financial responsibilities in the Ministries of Commerce and Industry, Community Development, Panchayati Raj and Cooperation, Information and Broadcasting and the Department of Food. This scheme envisaged exercise of control by the Finance Ministry mainly through pre-budget scrutiny and through random checks and

work studies. The scheme was later extended to other ministries and departments of the Government of India from June 1, 1962.<sup>9</sup> The main features of the scheme are :

- (1) The proper scrutiny of the schemes, etc., submitted by the administrative ministries for incorporation in the budget should be carried out by the Ministry of Finance before including such proposals in the budget. It has, therefore, been decided that budget proposals should be prepared by the ministries in greater detail and with as much precision as possible and referred to Finance Ministry a few months earlier than usual<sup>10</sup>, say from the beginning of July each year. Certain routine portions of the budget which are usually based on a study of actual expenditure in the first four or five months of the year can, however, be sent to the Ministry of Finance a little later, as soon as the basic information is available. The administrative ministries are accordingly expected to phase out their programme for the submission of their budget proposals and intimate the same to the Ministry of Finance.
- (2) The administrative ministries have been exhorted to organise their finance, budget and accounts work in a way as to facilitate implementation of the new Scheme. They should take steps to watch the progress of expenditure so as to control it with reference to the appropriation. Arrangements are to be made with the Accountants General to intimate to the ministries concerned approximate figures of expenditure by major heads by the 10th of the succeeding month. The ministries could also be supplied with figures of expenditure by minor heads and primary units by the end of the succeeding month after the monthly accounts are closed. There is, however, an exception in the case of the Accountant General for Central Revenues who could supply such figures to the ministries by the

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<sup>9</sup>Government of India, Ministry of Finance (Department of Expenditure), Office Memorandum No. F. 10(4)-E (Coord.)/62, dated the 1st June, 1962.

<sup>10</sup>Such estimates were hitherto submitted sometimes after October.

second week of the second succeeding month as he would close the monthly accounts after receipt of the Civil accounts from the State Accountants General. In the case of ministries having separate Pay and Accounts Offices, they are expected to work out the necessary arrangements for the purpose in consultation with their Pay and Accounts Offices.

- (3) Though normally provision is to be included in the budget estimates only for items which have been adequately scrutinised by the Finance Ministry, the provision (on merits) of a small extra lumpsum in the budget of every ministry to meet unforeseen liabilities has been allowed. But it has been made clear that such a course would not be tantamount to the acceptance of the principle of provision of lumpsums in the budget.
- (4) This scheme of delegation of powers also provides that any amounts, without specified limits, may be sanctioned by the administrative ministries if the projects for which such amounts are sanctioned, have been earlier scrutinised and accepted by the Ministry of Finance. It may be noted that under the powers delegated in 1958, the administrative ministries were authorised to sanction expenditure up to Rs. 50 lakhs only.
- (5) The administrative ministries have been delegated powers to incur expenditure on all items irrespective of the fact whether these are new items or otherwise so long as such new items do not result in any variation in expenditure and if they have been provided for in the budget after scrutiny by the Ministry of Finance.
- (6) The administrative ministries have also been delegated full powers for re-appropriation between the primary units in which provision is made for groups of allied schemes specified with the previous consent of the Ministry of Finance. To facilitate the exercise of these powers, the administrative ministries have been exhorted to take early action for preparing the necessary groupings of the primary units consisting of allied schemes and have such groupings approved by the Ministry of Finance.

- (7) The administrative ministries have been authorised to create posts carrying pay up to and inclusive of Rs. 2,250 p.m. in the prescribed and revised scales of pay and Rs. 3,000 in the pre-1931 scale. The powers to create posts can be exercised by the administrative ministries for creation of posts on any scale or rate of pay approved by President for posts of a similar character under the Central Government irrespective of whether a post of a similar character already exists in one of the departments constituting the ministry or not. The earlier restrictions that posts should not be created in contravention of instructions regulating staff composition and work standards have been removed.
- (8) Powers have also been delegated to the administrative ministries to sanction excess expenditure over the original estimates of sanctioned schemes up to a limit of 10 per cent or Rs. 1 crore, whichever is less, without reference to the Ministry of Finance. The administrative ministry concerned should, in such cases, satisfy itself about the special circumstances justifying the excess. It may be noted that under the powers delegated in 1958 the respective limits were 5 per cent and Rs. 1 lakh.
- (9) The heads of departments and other officers in the ministries should be delegated well-defined powers in respect of indents, purchases and contracts, within the limits prescribed for ministries. The administrative ministries have been delegated additional powers to sanction expenditure in the case of miscellaneous contracts, such as 'handling contracts' leases, etc., entered into by the ministry/department concerned up to the limits of their powers under the Delegation of Financial Powers Rules.
- (10) It has been made an integral part of the scheme of 1962 that each ministry should set up, internally, a competent work study unit which would assist the ministry in laying down norms for particular types of work and would also examine such proposals for staff reorganisation or creation of posts (both in the department and in the offices under it) as are referred to it. It might

also be necessary to have trained personnel for conducting work studies in larger offices under the administrative ministries. This would, however, be without any prejudice to the work of the units in the ministries for conducting work studies as they might like to undertake from time to time. The work study units in the ministries would also generally superintend and guide the working of the units in lower formations.

Thus, the scheme of 1962 provides for the delegation of a considerably enhanced powers to the administrative ministries. It also intends that administrative ministries should, in their turn, delegate to the maximum extent, administrative and financial powers to heads of departments and also to other subordinate authorities with due regard to their respective levels of responsibilities. Redelegations of powers to the subordinate authorities by the ministries should be treated as an integral part of the scheme whose purpose would be defeated if the additional powers are retained by the administrative ministries themselves. Accordingly, the administrative ministries have been given full powers, under the Scheme, to redelegate in their own discretion powers up to the limit of those vested in them, to heads of departments and heads of offices, etc., under them.

The scheme of 1962 further provides that in important financial aspects, the Finance Ministry should exercise its control through an adequate system of reporting and test checks and might carry out work studies of the administrative ministries or undertake *ad hoc* examination of selected aspects to the extent it considers necessary. It has, therefore, been provided that the administrative ministries should forward to the Ministry of Finance copies of sanctions falling under the following categories :

- (1) Contingent expenditure and miscellaneous expenditure above the following limits :
  - (a) Rs. 2,500 recurring per annum in each case; and
  - (b) Rs. 10,000 non-recurring in each case.
- (2) Excess expenditure over the estimates of schemes as accepted by the Finance Ministry.
- (3) Re-appropriation of funds in exercise of additional powers delegated under this scheme.

- (4) Introduction of a new item in a scheme even if it does not result in substantial variation of the scheme as accepted by the Ministry of Finance.

It has been made incumbent on the administrative ministries that they should submit to the Ministry of Finance a half-yearly statement, showing the sanctioned strength as on 28th February and 31st August each year. This statement is also required to include information regarding increases and decreases over the previous return in respect of the ministry as well as offices under it with suitable explanations for the creation of additional posts or reduction in establishment.

It would seem that the comprehensive delegation Scheme of 1962 met, to a considerable extent, the thinking in Government and of its various expert wings like the Planning Commission and the Organisation and Methods Division on the subject of financial control. The scheme also attempted to translate truthfully the statement made (referred to in earlier paragraphs) in August 1961 on the floor of Parliament by the Prime Minister on 'Measures for Strengthening Administration.'

It was about this time that the Third Five Year Plan was published. It stated :

"For the execution of any programme or project, the primary need is to fix specific responsibility on the agency concerned and, within it, on particular individuals. Within defined limits, each individual should be given full responsibility and, with it, the necessary measure of support and trust. If he fails in the discharge of his responsibility, he should be replaced. But so long as he holds the office with which he is entrusted, he should accept all its obligations, and, equally, he should be placed in a position effectively to discharge them. With responsibility thus specified, it should be open to him to seek such advice and consultation as he may require, but these should not become the necessary ingredients of the executive process itself. In the present functioning of the administration, consultation with other authorities is not always confined to broader matters; instead, it is too frequent and too concerned with details and, therefore, impedes effective action. Exercise of financial control is one important aspect of this problem. Obviously, the question here is one of ensuring wide

delegation of financial powers to the heads of administrative departments, with Finance Department undertaking their principal scrutiny prior to the framing of the annual budget.<sup>11</sup>”

The Delegation Scheme of 1962 was, therefore, put into operation at a time when the implementation of Plan programmes urgently demanded a sizable improvement in the system of financial control.

The introduction of this scheme of delegations of financial powers was soon after followed by the ‘Chinese aggression’ and the declaration of emergency by the Government of India. The need was, therefore, felt to effect economies, and accordingly, the Cabinet set up an Economy Committee (1963) to make a summary study of the staffing position in respect of all ranks of the different ministries and to make recommendations for economy. On the basis of the review conducted by the Economy Committee, the Union Home Ministry issued the following orders that : (1) the sanctioned staff strength in the concerned ministries should conform to that recommended by the Economy Committee and should not be exceeded ; (2) no new posts should be created without obtaining the express approval of the Home and Finance Ministries ; and (3) the ban on creation of posts other than those required for security and plan schemes which had been withdrawn would be revived.

The Delegation Scheme of 1962 had not been tried for a sufficiently long period when it was restricted in its operations by the Government, who imposed two bans on the exercise of powers by the administrative ministries, namely, (1) on the 30th September, 1964<sup>12</sup>, requiring all proposals for new construction or for release of funds therefor to be sanctioned in consultation with the Ministry of Finance, and (2) on the 19th August, 1965<sup>13</sup>, regarding continuation of the ban on the creation of fresh posts not required for Plan schemes or security purposes.

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<sup>11</sup>cf. Third Five Year Plan, Government of India, Planning Commission, 1962, pp. 277-280.

<sup>12</sup>Government of India, Ministry of Finance (Department of Expenditure), O. M. No. 2457-AS/64 dated the 30th September, 1964.

<sup>13</sup>Government of India, Ministry of Home Affairs, O. M. No. F. 7/49/65-C S. II dated the 19th August, 1965.



These bans were subsequently withdrawn on the 15th March, 1966<sup>14</sup>, and the scheme of delegation of financial powers to the administrative ministries as introduced by the orders of June 1, 1962 was brought into full implementation.

The Delegation Scheme of June 1962 was reviewed in 1967 by the administrative ministries at the request of the Finance Secretary and in the light of this review a modified scheme was evolved by the Ministry of Finance delegating larger financial powers to the administrative ministries. The new scheme, which was introduced from October 1968<sup>15</sup>, is also based on the arrangements that the Ministry of Finance will exercise its control mainly by a proper scrutiny of the schemes, proposals, etc., before inclusion in the budget and through an adequate system of reporting and test checks. The salient features of this scheme are :

- (1) It has been attached utmost importance that the time-schedule for the formulation of budget proposals should be strictly adhered to in order to allow sufficient time for proper scrutiny by the Finance Ministry of expenditure proposals submitted by the administrative ministries and for any subsequent discussions that may become necessary on the basis of such scrutiny. The intention is that as far as possible any substantial reduction in the outlays proposed by the ministries will not be made by the Finance Ministry without thorough discussions with the concerned administrative ministry at sufficiently high levels. Such discussions will be possible only if the time-schedule is scrupulously observed.
- (2) Administrative ministries will have full powers of re-appropriation within a Grant provided there is no diversion of funds intended for Plan schemes to non-Plan activities and there is no augmentation of the total provision made for administrative expenses (*i.e.*, pay, allowances, and other charges) under a particular Grant.

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<sup>14</sup>Government of India, Ministry of Finance (Department of Expenditure), O. M. No. F. 10(50)-E (Coord.)/65, dated the 15th March, 1966.

<sup>15</sup>Government of India, Ministry of Finance (Department of Expenditure), O. M. No. F. 10 (3)-E(Coord.)/67, dated the 18th October, 1968.

- (3) The scheme envisages that competent financial advice should be available internally within the administrative ministries.
- (4) Ministries are required to strengthen their Internal Work Study Units for the efficient discharge of their functions. The activities of these units will be coordinated with those of the Staff Inspection unit of the Ministry of Finance, who will also periodically exercise functional test checks over their work. It will be the function of the Internal Work Study unit : (i) to study the organisational structure, methods of work and procedure of the ministry/department with a view to suggesting measures for reform so as to improve the efficiency of the organisation; (ii) to study the staffing of the establishments under the ministry/department with a view to suggesting economy in staff consistent with administrative efficiency; (iii) to evolve standards of performance and norms of work relating to jobs peculiar to the ministry/department.
- (5) (i) In regard to posts required for public sector undertakings the ministries will have power to create posts carrying pay scales the maximum of which does not exceed Rs. 2,750 per mensem as against the existing limit of Rs. 2,250 p. m. (ii) For creation of permanent posts which it is intended to continue on a long-term basis, it is not sufficient if savings are available in a particular year alone, and it has to be ensured that long-term savings in the establishment budget are available for the purpose. In all cases of creation of posts for which specific provision has not been made in the approved budget, necessary savings should be located and specified before sanction is issued. It will not be correct for ministries to create posts involving recurring commitments for future years unless corresponding savings can be clearly located for those years also. (iii) The Internal Work Study Units, which are an integral part of the arrangement, should be consulted in all cases where additional posts are to be created under the delegated powers due to increase in work or re-organisation of staff.

- (6) Ministries have been delegated full powers to sanction grants and loans subject to the rules and principles being prescribed in consultation with the Finance Ministry.
- (7) The ministries are required to furnish to the Finance Ministry copies of sanctions falling under the following categories : (i) Contingent expenditure and miscellaneous expenditure above the limit of Rs. 2,500 recurring per annum in each and Rs. 10,000 non-recurring in each case. (ii) Excess expenditure over the estimates of a scheme as accepted by the Finance Ministry. (iii) Re-appropriation of funds in exercise of the powers delegated under the Delegation Scheme. (iv) Introduction of a new item in a scheme even if it does not result in substantial variation of the scheme as accepted by the Finance Ministry.
- (8) Ministries having attached and subordinate offices should in each case review, in consultation with their Internal Financial Adviser, the adequacy of the financial powers with the heads of departments/offices under them and re-delegate their own powers to the extent necessary. It is also important that self contained schedules of powers of subordinate authorities are drawn up and/or brought up-to-date.
- (9) The Scheme has sought to improve the arrangements for reporting by the administrative ministries to the Ministry of Finance in respect of staff strength. Instead of half-yearly statements being submitted by the administrative ministries to the Ministry of Finance, the scheme has made it incumbent on the ministries to furnish in future quarterly staff statements to the Associate Financial Advisers. The proforma for the submission of such statements has also been revised and amplified. A copy of the revised proforma is given in Appendix I.

The 1968 Scheme of Delegations of Financial Powers is an improvement over the earlier scheme of 1962 in many respects. It has provided for larger delegations of re-appropriation powers to the administrative ministries and has also enhanced their powers for the creation of posts required for public sector

undertakings. The operation of the Scheme has, however, been restricted recently in some respects by a ban imposed on November 17, 1970<sup>16</sup> on creation of posts on the non-Plan side. The Government has felt the need for such a measure to effect economies in administrative expenditure which has increased considerably as a result of the grant of interim relief to Central Government employees.

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<sup>16</sup>Government of India, Ministry of Finance (Department of Expenditure), No. F. 14 (14)-E (Coord.)/70 dated the 17th November, 1970.

## 5

# ARC and Its Recommendations

The Government of India, set up in January 1966, the Administrative Reforms Commission<sup>1</sup> with the terms to examine the public administration of the country and make recommendations for reforms and reorganisation where necessary. This Commission, in turn, constituted two study teams, one on Financial Administration<sup>2</sup> and the other on Machinery of the

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<sup>1</sup>The Administrative Reforms Commission was constituted by the Government of India through its Resolution No. 40/3/65—AR (P), dated the 5th January, 1966.

<sup>2</sup>The Study Team on Budgetary Reforms, System of Expenditure Control and Procedures governing financial relations between the Centre and the States (also known as Study Team on Financial Administration) was constituted through the Commission's memorandum dated May 28, 1966.

Government of India and its Procedures of Work,<sup>3</sup> and a Working Group on Financial Rules,<sup>4</sup> all of which dwelt on the subject of delegations.

### *The Study Team on Financial Administration*

The Study Team on Financial Administration included in its report a number of suggestions on various aspects of delegations. Referring to the exercise of delegations by the administrative and executive authorities subject to the scrutiny of the project having been completed by the Ministry of Finance in all its details, the Study Team remarked that a delegation scheme which would not become operative till the last detail of a project was worked out by the project authorities and approved by the Ministry of Finance, was not satisfactory. It was well accepted that a project authority had to undertake a large number of measures and complete many steps before the project could be worked out in all its details. The Study Team, therefore, recommended that once the preliminary feasibility report had been prepared and accepted by Government, the administrative ministries should be authorised to sanction expenditure on essential preliminary items up to a certain limit of the estimated cost. The Study Team further observed that even in those cases where no detailed project report was involved, delay occurred in the process of scrutiny and examination by the Ministry of Finance. It, therefore, suggested "the setting up of a time limit, say, four to five months, within which the approval of the Finance Ministry to the project or scheme should be accorded, failing which there should be a provision for the matter being automatically brought for decision before a Committee presided over by the Cabinet Secretary".

Referring to the delegated power available to the administrative ministries to reappropriate funds within a group of allied schemes if such a grouping had been approved earlier by the Ministry of Finance, the Study Team pointed out a serious

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<sup>3</sup>The Study Team on Machinery of the Government of India and its Procedures of Work was constituted through the Commission's memorandum dated May 13, 1966.

<sup>4</sup>The Working Group on Simplification of Financial Rules, Regulations and Manuals (also named Working Group on Financial Rules) was constituted through the Commission's memorandum dated August 31, 1967.

defect in its operation. Such a power, it stated, remained largely unexercised as the groups of allied schemes were not approved by the Ministry of Finance.<sup>5</sup> It urged the Finance Ministry to take a lead in the matter and insist upon the administrative ministries, at the time of budget formulation, to prepare and submit their lists of allied schemes for purposes of the Finance Ministry's approval. It further recommended that the administrative ministries should be delegated powers to reappropriate unutilised funds of non-plan schemes for plan schemes under the same Demand for Grant, without prior concurrence of the Ministry of Finance. It also suggested that a review should be undertaken of rules governing reappropriation of funds so as to vest the administrative ministries with more such powers.

The Study Team found the delegations to the administrative ministries in respect of negotiating contracts and placing orders for materials and supplies as unduly restrictive. It recommended that the existing rules and procedures pertaining to such matters should be reviewed and revised with a view to enhancing the powers of the administrative ministries concerned.

The Study Team was quite critical of the exercise of delegated powers by the administrative ministries in matters pertaining to creation of posts and wanted a stricter control in this respect. The Study Team stated :

"While generally we have suggested greater financial delegation, there is one matter in which we recognize the need for greater overall control : the creation of posts and the resultant increase in establishment costs. Subject to the availability of funds and the location of savings, the ministries are now competent to create temporary and permanent posts on any approved scale of pay, etc. The opinion has been expressed both in Parliament and elsewhere that there is considerable overstaffing in Government departments and demands have been made from time to time for reduction in the expenditure on staff and establishment. It has also

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<sup>5</sup>This position has changed under the latest Delegation Scheme of October 1968, which has dispensed away with the condition of having groupings of allied schemes approved by the Ministry of Finance and instead has delegated full powers of reappropriation within certain limits.

been felt that, under the delegated powers, the Ministries have been prone to create posts more liberally and with less rigid application of the standards or norms for the creation of such posts with the result that there has been avoidable expansion of staff.”<sup>6</sup>

✓ The Study Team recognised that under the existing arrangements the administrative ministries were required to consult their work study units or O & M Units before creating new posts. Nevertheless, many of such units had not built up the expertise so very necessary for the effective discharge of the functions entrusted to them. The Study Team was, therefore, in favour of assigning such a function to an outside specialised agency or staff inspection unit composed of officers well-trained in methods of work study, work measurement, etc. Such a unit, the Study Team recommended, should be located in the Ministry of Home Affairs or in the Cabinet Secretariat.

✓ The Study Team expressed awareness of the fact that the limitations on the powers of administrative ministries to create posts might lead to difficulties in situations such as an unanticipated and sudden increase in work or emergency where creation of temporary posts without delay might become necessary. It, therefore, recommended that in such circumstances the administrative ministries should be empowered to create temporary posts for periods not exceeding three months in each case in class II, III and IV if funds to meet the cost of these posts could be found by them by valid re-appropriation within their budget provision. Except for such cases of creation of purely temporary posts, the Study Team recommended that the administrative ministries should be precluded from augmenting the provisions under the ‘Pay of Officers’ and ‘Pay of Establishment’ by recourse to re-appropriation.

*The Study Team on Machinery of the Government of India and its Procedures of Work*

This Study Team made a mention of the general tendency amongst controlling authorities to act as a centralising force. With efflux of time they have assumed more powers than what

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<sup>6</sup>cf. Administrative Reforms Commission’s *Study Team Report on Financial Administration*, Government of India, May 1967, p. 53.



is necessary for the discharge of their normal functions. This applied equally to the Ministry of Finance which is a nodal agency in regard to budgetary and financial powers. The Study Team, therefore, recommended that such a centre of power should carry out a periodical and systematic review to see whether the powers it was holding were not excessive. It should take action to delegate those powers which it considered could be exercised better by other authorities or agencies. There were a number of criteria to guide such decisions. The volume of work to be handled by an agency could be a guiding principle to decide the extent of delegations it should have. "Failure to give full recognition to the link between work load and delegations is one of the major causes for the expansion of the governmental machinery beyond reasonable limits and its general slowness in getting work done."

The Study Team further stated that the delegations should be linked to the nature of work performed. To some extent this principle was recognised in the Government of India inasmuch as there were special financial delegations made to the engineering departments, union territories, scientific laboratories, etc. There was, however, not enough of such a kind of functional variegation in the delegation patterns evolved by the Government of India. All administrative ministries whether a heavy programme ministry like Commerce or a wholly non-programme ministry like Law, were delegated more or less the same financial powers. Below this level, there were two categories of delegates, namely, heads of departments and heads of offices. Each of these categories had a delegation pattern evolved for it which applied uniformly to such a category of delegates. This led to a head of department of a major organisation like the Director General of Health Service having the same powers as a Commissioner of Income Tax. Similarly, under such a dispensation, a head of office incharge of a large hospital enjoyed powers similar to those of a "small-town" Income Tax Officer incharge of only six or seven members of the staff. Though it was not possible to tailor delegation patterns to all organisations individually, it should be possible to evolve more than one delegation pattern for each level of delegates to link delegations to the nature of work handled in various organisations. The Study Team recommended that "delegations should be the

maximum possible rather than the minimum necessary."

The Study Team also recommended delegation of powers to the administrative ministries in matters of budget making. It thought that the Ministry of Finance handled most of the work relating to budget formulation in a rushed fashion and during a peak season of a month or so (from middle of November to the middle of December). The estimates scrutinised by it fell into three categories, viz., those relating to establishment budgets, estimates in respect of continuing schemes and those for new schemes. Most of the work relating to scrutiny of estimates especially in connection with establishment budgets and also in certain respects of continuing schemes and new schemes<sup>7</sup> was disposed of by the Associate Financial Advisers.<sup>8</sup> The A.F.A.'s, of course, observed, in the discharge of their functions, the guidelines and instructions provided to them by the Expenditure Secretary. The Study Team felt that the area of operation of the A.F.A.'s was the right field in which powers for making and approving budget estimates could be delegated to the administrative ministries by the Ministry of Finance while withholding a few exceptional items. The administrative ministries could exercise such powers within the framework of set guidelines and directives and with the assistance of their Financial Advisers. The Ministry of Finance could exercise overall control by carrying out, from time to time, test checks of the quality of budget scrutiny conducted in the administrative ministries. Such a course would leave with the Ministry of Finance those tasks which are the most important and manageable.

The Study Team, therefore, recommended that selected responsibilities in respect of the scrutiny and acceptance of budget proposals should be assigned to the administrative ministries in three areas, namely, establishment budgets, estimates for continuing schemes and those for new schemes. The exercise of these responsibilities by the administrative ministries should be

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<sup>7</sup>The Associate Financial Advisers approved and accepted estimates for continuing and new schemes which cost less than Rs. 5 lakhs recurring or Rs. 25 lakhs non-recurring. Schemes costing more required approval of the Expenditure Finance Committee.

<sup>8</sup>The Budget is compiled by the Budget Division of the Department of Economic Affairs in the Ministry of Finance.

conditional to their appointing Chief Finance Officers to assist and advise them in budgetary and financial matters.

Elaborating its recommendations further the Study Team suggested that the administrative ministries should be delegated full powers for carrying out scrutiny and accepting budget estimates in regard to establishment subject to two conditions. One of them was that the administrative ministries should exercise such powers subject to observance by them of guidelines prescribed by the Ministry of Finance. The other condition was that the establishment estimates of a ministry taken as a whole should not exceed the previous year's budget grant, including any supplementary grant sanctioned during the year, by more than five per cent.

The Study Team further recommended that the administrative ministries should be delegated powers for the scrutiny and acceptance of budget estimates pertaining to continuing schemes. The operation of these powers should also be subject to certain conditions. These conditions could be that any increase in the cost of a particular scheme was not more than 10 per cent of the previous year's budget grant including supplementary grant if any or Rs. 5 lakhs whichever was more. Also, it could be made incumbent on the administrative ministry to furnish a certificate to the effect that it had satisfied itself, preferably on the basis of an evaluation report that it was necessary to continue the scheme.

In regard to budget estimates pertaining to new schemes, the Study Team stated that responsibility should be delegated to the administrative ministries as follows :

- “(a) scrutiny and acceptance of budget estimates of plan schemes or items which do not have to be approved by the Expenditure Finance Committee and in respect of which there has been scrutiny and specific plan allocation;
- (b) scrutiny and acceptance of budget estimates of non-plan schemes or items which are considered essential and can be financed from permanent recurring savings located by the administrative ministries in their budgets relating to establishment and continuing schemes; these are unlikely to be large enough to require the approval of the Expenditure Finance Committee;

- (c) scrutiny of budget estimates of other non-plan schemes which do not have to be approved by the Expenditure Finance Committee, acceptance in their case being left to the Ministry of Finance to be judged in the light of overall priorities; and
- (d) scrutiny of budget estimates of plan or non-plan schemes other than those mentioned above which have earlier been cleared by the Expenditure Finance Committee and for which the outlay proposed is within the approved phasing of the scheme for the year in question acceptance being left to the Ministry of Finance to be judged in the light of overall priorities.”<sup>9</sup>✓

According to the Study Team, the Ministry of Finance should continue to be vested with the authority to impose ministry-wise economy cuts on the budgets finally accepted by the administrative ministries in the exercise of their delegated powers. Also, the administrative ministries which would be delegated powers for accepting budget estimates relating to establishment, continuing schemes and new schemes, should be precluded from accepting lump sum provisions in their budgets.

✓The Study Team recommended further liberalisation and enhancement of delegated powers in various other areas, i.e., powers to create posts, powers to reappropriate funds, powers to purchase stores and enter into contracts, powers to spend on contingencies and powers to write off losses. The increased delegations should be patterned to suit the various levels of authorities and the different types of organisations such as administrative ministries, line organisations subordinate to them and specialist organisations. Also, delegations should be linked to the nature of work performed by a particular organisation. To meet such a requirement, a reasonable number of delegation patterns might be evolved, each to suit the needs of a particular category of organisations. ✓The Study Team felt that the administrative ministries should treat a delegation pattern evolved for each category of organisations as a norm only and might freely permit deviations from it depending on the

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<sup>9</sup>Administrative Reforms Commission's *Study Team Report on Machinery of the Government of India and Its Procedures of Work*, Part II (Vol. I), Government of India, 1968, p. 144.

special needs of a particular organisation within the broad category. ✓

The Study Team was not convinced about the rationale behind the use of powers for sanctioning expenditure on schemes.<sup>10</sup> It did not think that "expenditure sanctions" served any useful purpose in the matter of expenditure control. Such sanctions, in fact, constituted an additional and a delaying step in the already existing complex procedures and tended to introduce casualness and superficiality in the initial framing of schemes by providing a second stage of scrutiny. The right course to adopt, according to the Study Team, was to eliminate such sanctions rather than delegating more powers to the administrative authorities for issuing them. The Study Team, therefore, recommended :

"after authorisation by Parliament, there should be specific allotment of budget grants scheme-wise and each such allotment should be accompanied by broad details of the budget estimates of the scheme as accepted, which would contain particulars of expenditure as are now given in the expenditure sanction; since the two documents will serve the same purpose as the expenditure sanction, the act of appropriation or reappropriation of funds should itself operate as sufficient sanction to incur expenditure on schemes."<sup>11</sup>

### *The Working Group on Financial Rules*

The Administrative Reforms Commission appointed a Working Group<sup>12</sup> to review and examine the existing financial rules, regulations and manuals and to make suggestions for their simplification and improvement. This rationalisation of the rules and procedures was sought with a view to

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<sup>10</sup>The Administrative ministries have been delegated, since the introduction of the Delegation Scheme of 1962, full powers to sanction expenditure on schemes, provided funds are available and the scheme as a whole has been scrutinised and accepted by the Ministry of Finance. Similarly, subordinate organisations, both line and specialist, have also been delegated powers to sanction expenditure on schemes within prescribed limits.

<sup>11</sup>*Report of the Study Team on Machinery of the Government of India and its Procedures of Work, Part II (Vol. I), op. cit., p. 158.*

<sup>12</sup>The Working Group on Simplification of Financial Rules, Regulations and Manuals (also named Working Group on Financial Rules).

(i) enhancing the comprehensibility of the rules generally, (ii) minimising the difficulties of interpretation; (iii) reducing the paper work in government departments and organisation, (iv) minimising audit objections; and (v) facilitating their smooth application and operation.

The Working Group deliberated upon those aspects of the financial rules which had important bearing on the efficient and smooth working of the administrative machinery such as delegation of powers and other relevant rules. While recognising the operation of the financial rules as all pervasive and affecting the entire gamut of administration, the Working Group considered it more appropriate to focus attention on the aspect of delegation of powers and decentralisation of functions. It, however, thought that a consideration of the financial delegations could not be divorced entirely from a study and examination of the connected procedural and departmental matters having direct bearing on such delegations. Accordingly, the Group has made a number of recommendations regarding delegations in the Central Public Works Department, in the Directorate General of Supplies and Disposals, and in the Printing & Stationery Department.

The Working Group has examined in considerable detail the rules and procedures relating to the Central Public Works Department and has made a number of suggestions to remedy the existing defects and to remove the administrative delays and uncertainties associated with the execution of civil works. Some of its recommendations are as follows:

- "1. It has been noticed that while financial powers are delegated in a liberal measure by the rules to subordinate authorities, conditions are subsequently prescribed and restrictions imposed with regard to the exercise of these delegations. This is an unhealthy practice. The delegations once made by rules should not be whittled down or rendered infructuous by the subsequent instructions;
2. It is not a sound practice to delegate powers through statutory rules and place restrictions on their exercise by the subsequent issue of executive orders. The necessity of issuing any general or special orders of the President in relation to the delegation under the rules

should be minimised if not eliminated altogether. The effort should be to amend the list of delegations for the purpose of specifying or incorporating the conditions or restrictions and not whittle them down by the issue of *ad hoc* executive flats from time to time without making the latter a part of the regular rules;

3. Where the power is delegated to a specific level of the administrative hierarchy or authority it should be insisted upon that the power is in fact exercised by that authority and all administrative steps be taken to ensure the implementation of this important public policy;
4. In respect of purchase of stores, the Chief Engineers should be given full powers to issue proprietary articles certificates wherever considered necessary;
5. In cases of extreme urgency which cannot brook delay, the Chief Engineers should be delegated full powers to make direct purchase of materials and stores from whatever sources they consider advisable so long as the rates are either at par with or within the rates prescribed by the D.G.S.&D. for the same articles or articles of similar specifications for which there is in existence a rate running contract of the D.G.S.&D.;
6. The powers delegated to the Executive Engineers for the acceptance of a single tender should be raised to Rs. 10,000 for sanction under their own power. The ceiling of Rs. one lakh up to which they are empowered to accept single tender with the prior approval of the next higher authority is quite adequate and need not be changed;
7. The powers of the Chief Engineers also for the acceptance of single tenders without the prior approval of the Central Works Advisory Board should be enhanced from the present limit of Rs. 15 lakhs to Rs. 25 lakhs;
8. The powers of the Engineering Officers at various levels for the award of works without call of tenders and by negotiations *ab initio* after infructuous call of tenders or with a firm which has not quoted,

should be enhanced as follows :

Executive Engineer	...	Rs. 25,000.
Superintending Engineer	...	Rs. 1,00,000 for all works and Rs. 2.5 lakhs for run- way works.
Chief Engineer	...	Rs. 5 lakhs for all works and Rs. 10 lakhs for runway works.

9. Disparity in the powers enjoyed by the engineering Officers of the same level but working in different divisions should be removed and the officers of the same status should be allowed to exercise equal powers irrespective of the divisions to which they are attached. If there are strong reasons for having enhanced limits for maintenance works and lower limits for construction works, this delegation of powers should be with reference to the nature of works, viz., maintenance works and construction works irrespective of the divisions in which such works are executed;
10. As the existence of the Central Works Advisory Board ensured that in cases of works of a large value and of negotiated contracts an independent examination was carried out jointly by the Head of the Department and the Ministries of Works, Housing and Supply, and of Finance which are represented on the Board, the Board should be retained. However, in view of the high increase in the cost of construction, the powers enjoyed by the Engineer-in-chief/Chief Engineers for the acceptance of the lowest tenders without reference to the Board, should be raised to Rs. 40 lakhs from the existing limit of Rs. 25 lakhs. The existing monetary powers enjoyed by the Engineer-in-chief/Chief Engineers in respect of the award of work by negotiation with the lowest tenderer or the award of work by negotiation with a tenderer other than the lowest or the acceptance of the tender other than the lowest are considered to be adequate;
11. The administrative authorities should be empowered so as to be in a position to sanction minor works as now defined in the Central Public Works Account



Code;

12. The powers should be delegated to the administrative ministries (including Ministry of Works, Housing and Supply) to issue 'expenditure sanction' in respect of major works costing up to Rs. 5 lakhs without reference to Finance. The present scheme of 'expenditure sanction' should be modified to this extent;
13. An internal audit wing should be set up as an experimental measure under the administrative control of the Engineer-in-Chief."

The Working Group thought that in the case of the Directorate General of Supplies & Disposals it was very difficult to have any finality in the matter of delegation of powers because of the various factors such as increase in the workload, rising price index and periodic shifts and adjustments in the organisational structure. The Group examined the position in regard to the delegation of powers to the officers in the Directorate General of Supplies and Disposals keeping in view the latest enhancement of such powers by the Government Order of 1967.<sup>13</sup> It considered that the streamlining and rationalisation of the existing delegations was necessary in the case of some delegations and accordingly made the following recommendations for the purpose :

- "(1) The powers of the Director General to make purchase of proprietary stores on single tender basis under his own authority should be raised to Rs. 8 lakhs;
- (2) The powers of the Deputy Director General and the Director General in respect of the placing of contracts with unregistered firms should be revised to Rs. 6 lakhs and Rs. 10 lakhs respectively. In cases exceeding Rs. 10 lakhs the Director-General should exercise his powers in consultation with Finance;
- (3) In respect of price preference to indigenous products over imported stores where it exceeds 25 per cent, the Director General should decide cases under his own

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<sup>13</sup>Government of India, Ministry of Works, Housing and Supply letter No. 6 (4)/66-P-I dated the 2nd November 1967 on the subject of delegation of powers to the Officers in the Directorate General of Supplies and Disposals (including regional offices) for making purchases, etc.

powers up to Rs. 5 lakhs; in cases exceeding this limit, he should consult Finance;

- (4) In cases of extension of delivery period without reservation of Government's right to levy liquidated damages and disallow increase in sales-tax, custom duty, etc., we feel that greater care and caution should be taken and more intense scrutiny applied in the exercise of these powers. The purchase officers should, in all such cases, invariably take steps to consult Finance; and
- (5) The limits of the actual losses up to which the Director General and the Deputy Director General should be authorised to waive liquidated damages for delays in supplies should be raised to Rs. 2,500 and Rs. 500 respectively.

The Group considered that the powers delegated to the officers at different levels in the Department of the Chief Controller of Stationery and Printing were not adequate. The Schedule of rates for various items on which most of the existing delegations were based was prepared originally in 1941 and was reviewed and revised upwards by 50 per cent in 1957. The delegations made to the officers of the Printing & Stationery Department were, therefore, out of date in most of the cases and needed to be substantially revised. The Working Group recommended that the powers delegated to the Chief Controller of Printing and Stationery and other officers under him should be suitably enhanced. Some of its important recommendations in this respect are mentioned below:

- “(1) A thorough revision of the schedule of rates in the light of the prevalent price levels of the various articles should be undertaken at a very early date;
- (2) The Chief Controller of Printing & Stationery may be empowered to make purchases of items of plant and machinery essentially of an auxiliary character up to Rs. 50,000 per item at a time;
- (3) The General Managers and Managers of Government presses should be delegated the powers to make purchases of small items of machinery and allied equipment up to Rs. 2,000 at a time.”

In addition, the Working Group made recommendations

for the further liberalisation of delegated powers in various other fields. It suggested that a provision should be made enabling the Departments of the Central Government to sanction expenditure in respect of items provided in the budget after scrutiny by the Ministry of Finance even though such expenditure involves the introduction of a new principle or practice. The Working Group recognised that the existing rule which prohibits the insurance of Government property caused difficulties in the case of departmentally-run undertakings operating on commercial lines. It has suggested incorporating a provision in the rules to empower the heads of such undertakings to insure their raw materials, stores, equipment and machinery, etc. The Group also suggested that to facilitate the speedy and timely implementation of projects, the Departments should be empowered, in the case of the projects where preliminary feasibility reports have been approved, to incur expenditure up to a limit of 5 per cent of the estimated cost of a project or Rs. 25 lakhs whichever is less, pending the acceptance of the detailed project reports.

### *The Report of the Administrative Reforms Commission*

The Administrative Reforms Commission considered the suggestions made by their study teams and the Working Group on Financial Rules in regard to the question of delegations. They dealt with this subject in its various aspects in an independent report on "Delegation of Financial and Administrative Powers"<sup>14</sup> submitted to the Government in June 1969. Some of their important recommendations for reforms in this area are given below :

- "(1) In making delegations the approach should be that powers to be delegated should be the "maximum possible" in the circumstances rather than the "minimum necessary". The delegations should be reviewed at periodical intervals in the light of the requirements of the changed circumstances in which powers are exercised. The Department of Administrative

<sup>14</sup>Administrative Reforms Commission's *Report on Delegation of Financial and Administrative Powers*, Government of India, New Delhi, June 1969.

Reforms should assist the nodal and other ministries concerned in making such a review and formulating proposals for changes necessary in the delegations, for the consideration and decision by government;

- (2) The delegating authority should be responsible for ensuring that powers are properly exercised by its subordinate agencies. For this purpose, it should organise on-the-spot inspections and scrutiny of periodical returns containing details regarding decisions taken by delegatee-authorities. In judging the manner in which delegated powers are exercised, a broad view should be taken. Petty mistakes or minor errors of judgment should not be made much of and one who has shown initiative and boldness in taking decisions should be encouraged notwithstanding minor errors;
- (3) While the responsibility of the Finance Ministry for budget-making and for pre-budget scrutiny should remain unimpaired, ways and means should be devised by mutual cooperation between the administrative ministries and the Finance Ministry to avoid as far as possible duplication of work in the matter of budget scrutiny;
- (4) Subject to necessary safeguards, the ministries should delegate adequate financial powers to the line and specialist organisations. The delegations should generally be related to the nature of work handled in such organisations. This should be achieved mainly by suitable adjustments in the delegation of powers of the existing categories of authorities. An increase in the number of patterns themselves should be considered only if unavoidably necessary. Care should, however, be taken to ensure that there is no needless proliferation of patterns;
- (5) The feasibility of having an Internal Finance Officer in selected line and specialist organisations should be examined and such an officer should be appointed wherever the nature or the volume of work clearly warrants such an appointment."

Having mentioned the recent thinking on the subject of delegations and the views of the various expert bodies thereon, we should now be in a position to undertake an analysis of the schemes for delegation of financial powers introduced by the Government of India.

## 6

# Delegation Schemes in Operation

The system of centralised financial control by the Department of Finance worked rather smoothly during the days of British Indian Administration. This was primarily due to the fact that the magnitude of governmental resources and expenditures was of a limited order intended to serve only a few objectives. With the emergence of new tasks after Independence and the launching of Five Year Plans, the old system of centralised control was no longer in harmony with the needs of development administration. The implementation of the various programmes of economic and social development placed larger responsibilities on the administrative authorities and executing agencies. The achievement of their programmatic

goals with efficiency and economy necessitated adequate delegation of financial powers to the operating agencies as part of the facilities for an efficient and effective performance of their functions. The various delegation schemes introduced by the Government of India, from time to time, are attempts in this direction.

The assumption of newer and larger responsibilities by the administrative and executive authorities requires periodical review of the delegation patterns and necessary action to match adequately the powers delegated with the responsibilities to be discharged by the functionaries at various levels. A balance has to be maintained between the interests of financial control and the needs of the times expressed in terms of demands for delegation of financial powers to the executing agencies to enable them to discharge their functions efficiently and economically. This throws up a stupendous task for the Finance Ministry of achieving a right balance between the quantum of control it should retain in its own hands for the proper discharge of its responsibilities and delegation of adequate financial powers by it to the administrative authorities to avoid slowing down the tempo of public business. As Paul H. Appleby has remarked :

“The first concern of financial administration is frugality. The enthusiasms of those charged with special functions have a high value; to damp them unduly is wasteful; not to discipline them is to open wide the door to extravagance and imbalance. True economy, consequently, results from the interaction of the drives of enthusiasm with the restraining disciplines of review. But it is difficult to draw a hard and fast line in practice specifying that a trek across the border would hamper the enthusiasm and that a failure to reach the deadline would result in extravagance and imbalance. It is only through a system of trial and error and through a process of adjustment and readjustment that a compromise and a balance can be struck”.<sup>1</sup>

With this background, we may now examine whether the

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<sup>1</sup>Paul H. Appleby, *Public Administration in India, Report of a Survey*, *op. cit.*, p. 30

financial powers delegated by the Ministry of Finance to the administrative ministries and therefrom to the attached and subordinate offices are adequate enough to meet their respective needs. It would also be relevant to observe whether the powers delegated are being utilised by the various levels of authorities. In case these powers are not being exercised by the delegates, it would be of interest to investigate the reasons for such a situation. For the purpose of our study, we have taken up some specific issues which are important in a consideration of the problem of delegation of financial powers. We may deal first with the case of powers regarding expenditure sanctions.

### *Expenditure Sanctions*

The Ministry of Finance exercises control over public expenditure in three stages : (1) approval of programmes or policies in principle; (2) acceptance of provision in the budget estimates; and (3) prior sanction to incurring of expenditure subject to such powers as have been delegated to the administrative ministries. The Ministry of Finance is responsible for making a reasonably fair distribution of the total sum determined by its ways and means position amongst the various programmes and activities of the Government within the framework of the plan. Hence, its control at the stage of approving a programme and subsequently at the stage of making the budget provision for it is important. But the restrictive condition whereby the inclusion of a provision in the budget does not by itself confer authority for incurring expenditure would not suit an expanding government with progressive involvement in developmental activities.

The Government of India have recognised this need for rationalising the procedures for expenditure sanctions and have delegated enhanced powers to the administrative ministries in their various delegation schemes. The main objective of these delegation schemes has been to improve the procedures for pre-budget scrutiny and delegate powers of post-budget expenditure sanctions to the administrative departments within broad limits. Under the Delegation Scheme of August 1958, the administrative ministries were authorized, subject to certain conditions, to issue expenditure sanctions on any scheme



the total expenditure of which did not exceed Rs. 50 lakhs. These powers were enhanced under the Delegation Scheme of June 1962, which provided that any amounts, without specified limits, could be sanctioned by the administrative ministries if the projects for which such amounts were sanctioned, had been earlier scrutinized and accepted by the Ministry of Finance.<sup>2</sup>

The present position in this regard, therefore, is that administrative ministries have full powers to sanction expenditure on schemes or projects, provided funds are available and the scheme or the project, as a whole, has been scrutinized and accepted by the Ministry of Finance.✓

On the face of it, these powers of expenditure sanction vested in the administrative ministries are large enough to provide them with the necessary operational facility. But the actual position seems to be somewhat different. It has been observed that in a good many cases it is not found feasible to complete the examination and scrutiny of schemes at the pre-budget stage. The Ministry of Finance maintains that the administrative ministries do not send their schemes in time with all the necessary details.✓ Lumpsum provisions in the budget have, therefore, been found necessary.✓ Consequently, the powers of expenditure sanction delegated to the spending departments cannot be exercised by them.<sup>3</sup> On the other hand,

<sup>2</sup>There has been no change in this position under the Delegation Scheme of October 1968.

<sup>3</sup>A study referred to in the report of the Study Team on Machinery of the Government of India and its Procedures of Work gives the following analysis of the pre-budget scrutiny carried out by the Ministry of Finance on 60 proposals for new schemes relating to the budget estimates for 1967-68, submitted by three ministries, namely, Home Affairs, Health and Family Planning, and Commerce :

	<i>Accepted (with or without modifications)</i>	<i>Accepted subject to post-budget scrutiny</i>	<i>Rejected</i>
Up to Rs. 1 lakh	27	11	4
Between Rs. 1 lakh and Rs. 5 lakhs	3	1	1
Over Rs. 5 lakhs	10	3	—
	<hr/> 40	<hr/> 15	<hr/> 5

It would thus be observed that more than 25 per cent of the new schemes accepted for incorporation in the budget estimates were accepted subject to post-budget scrutiny. See Administrative Reforms Commission, *Report of the Study Team on Machinery of the Government of India and Its Procedures of Work*, Part II (Vol. I), New Delhi, February 1968, p. 141.

the administrative ministries complain that the Ministry of Finance keeps asking too many and sometimes unnecessary details rather than examining the proposals in their aspects. ✓

Pre-budget scrutiny of expenditure proposals by the Ministry of Finance is a well accepted principle and is necessary to be treated with all seriousness to serve best the interests of effective financial control. Such a scrutiny is also an important prerequisite for a meaningful operation of any scheme of delegation of financial powers. It should, therefore, be the prime concern of both the administrative ministries and the Ministry of Finance to make efforts to see that such a scrutiny is completed before the expenditure proposals are incorporated in the budget. Whereas the administrative ministries would need gearing up of their organisations to be able to submit their expenditure proposals in time and complete in all significant aspects to enable the Ministry of Finance to carry out the necessary pre-budget scrutiny, the Ministry of Finance would also need to restrict such a scrutiny to the important details of the proposals asking for such relevant information in regard thereto as the administrative ministries could be reasonably expected to procure and supply within the stipulated period.

The proposals submitted by the administrative ministries should receive due consideration at the pre-budget scrutiny stage. The Ministry of Finance should give clear and concrete reasons in case it has to turn down any of such proposals and should refrain from using such vague remarks as "we are not convinced" or "time is not ripe" or "further justification should be given". The cuts imposed by the Ministry of Finance on the estimates framed by the administrative ministry should not be *ad hoc* and arbitrary and be based on convincing arguments. It may be of interest to narrate here a case of an arbitrary cut applied by the Ministry of Finance to the estimates submitted by an administrative ministry which we came across during the course of our study. The cost of a scooter (alongwith the allied expenditure on its body-building) is of the order of Rs. 8,500 and since this is more or less a fixed price at which the dealer would sell a scooter (despatch rider in official parlance), there should be no question of reducing this estimate. When the budget provision for this item of purchase was asked

for by an administrative ministry, the Ministry of Finance accepted their need for having a despatch rider but reduced the estimates for it to Rs. 5,000. It is not the intention to generalise on this basis the nature of scrutiny of budget proposals conducted in the Ministry of Finance. Nevertheless, such arbitrary cuts should be avoided by the Ministry of Finance while examining the expenditure proposals coming from the administrative ministries.

It is well-recognized that administrative authority responsible for executing a major scheme has to take a number of steps before such a scheme is worked out to the last detail. Under conditions of uncertainty such estimates are subject to some variations. In fact, providing for such contingencies is an important aspect of delegation plans. This being so, excessive concern for details by the Ministry of Finance would disqualify even the most carefully worked out schemes at the stage of pre-budget scrutiny thereby negating the very spirit of delegations. Also, the examination by the Ministry of Finance if extended to technical details of budget proposals, for which the Finance Ministry may not be properly equipped, would result in raising of objections of an elementary and uninformed character. This would generally involve interminable discussions between the Ministry of Finance and the administrative ministries after which most of such objections might evaporate. This, apart from being a source of irritation to the administrative authorities, is a highly time-consuming process. Quite often the cost of delay in sanctioning a proposal more than offsets any saving which might accrue from reducing a few thousands from the allotment of the sanction of the proposal. If we were to measure the consequences of delay in according financial sanctions to proposals, especially those pertaining to developmental schemes, it would come to a colossal loss. The Study Team on Financial Administration, while referring to the delay occurring in the scrutiny and examination of projects, has made the following recommendation :

“Delay occurs in the process of scrutiny and examination by Finance. A time limit of say, four to five months should be laid down within which the approval of the Finance Ministry to a project or a scheme should be accorded,

failing which there should be provision for the matter being automatically brought for decision before a Committee presided over by the Cabinet Secretary.”<sup>4</sup>

The latest Delegation Scheme of October 1968 states that “the preparation of budget proposals in sufficient detail and their proper pre-budget scrutiny by the Finance Ministry is an essential feature of the Scheme.” It is, however, left vague as to what precisely is meant by “sufficient details” supporting an expenditure proposal for a “proper pre-budget scrutiny” by the Ministry of Finance. The realization of the intentions and purposes of the Delegation Scheme would, therefore, very much depend on the attitudes of the two sides and the good faith in which the Delegation Scheme is operated.

If the administrative ministries work out the schemes and projects in all significant details having important financial bearing and the Ministry of Finance carries out pre-budget scrutiny in a constructive, purposeful and imaginative manner, asking for only essential details in broad terms, there is no reason why the Delegation Scheme, insofar as the powers of expenditure sanction are concerned, should not work well. It would help matters if a sort of check list is drawn up by the Ministry of Finance in consultation with the administrative ministries of the broad details which it would consider essential for its examination of the proposals before they are incorporated in the budget. These broad details may relate only to the essential features of the scheme giving reasonably accurate estimates of cost to enable the Finance Ministry to determine its feasibility and suitability for sanction. The remaining details may be left to be worked out by the administrative ministries from time to time with the help of their internal finance. Also, if the Ministry of Finance thought that certain specific conditions needed to be fulfilled in connection with the expenditure proposal, it could so indicate to the administrative ministries who should satisfy themselves about these points before sanctioning the expenditure without a further reference to the Ministry of Finance on the matter.

Under the Delegation Scheme of October 1968, the powers of expenditure sanction will not be available to the

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<sup>4</sup>cf. *Report of the Study Team on Financial Administration, op. cit.*, p. 52.

administrative ministries in cases of plan or non-plan schemes for which lump-sum provisions are made in the budget until full details and justification of the schemes have been furnished to the Ministry of Finance and accepted by them. The A. R. C. Study Team on Financial Administration has made the following observation on this problem :

“It is a well accepted principle of budgeting that no provision should be made for a scheme unless adequate details together with a breakdown of cost have been furnished to the Treasury and accepted by it. In other words, lump-sum provisions, *i.e.*, provisions of which the details have not been worked out and, therefore, are not available, should not ordinarily be included in the budget.”<sup>5</sup>

Though the principle of not resorting to lump-sum provisions in the budget estimates is unexceptionable, such a recourse may be unavoidable if the administrative ministries submit their expenditure proposals quite late in the year leaving insufficient time with the Ministry of Finance for the necessary scrutiny and examination of such proposals. The Estimates Committee of the First Lok Sabha in its Ninth Report has commented as follows :

“The Budget Division of the Ministry of Finance receives the various proposals from the Ministries in one lump-sum during one or two months towards the close of the financial year. Consequently, the Budget Division does not have sufficient time to examine the proposals in greater detail and to scrutinise each and every item carefully. The practice has, therefore, been that the Budget Division applies broad checks and determines certain gross amounts for the various schemes without committing itself or the Ministry of Finance to this spending during the next financial year. The system is whatever has been included in the estimates is merely with a view to getting the vote of the House thereon and does not entitle the administrative ministry to incur expenditure unless a detailed expenditure sanction has been issued by the Ministry of Finance.”<sup>6</sup>

<sup>5</sup> *Report of the Study Team on Financial Administration, op. cit.*, p. 38.

<sup>6</sup> Estimates Committee (First Lok Sabha), *Ninth Report on Administrative, Financial and Other Reforms, op. cit.*

The making of lump-sum provisions in the budget may also become unavoidable in certain unanticipated situations. There may arise an emergency situation necessitating urgent measures and a lump-sum provision of funds therefor. It may also become necessary to provide for preliminary expenses on survey, etc., in connection with a projected scheme. An itemwise and detailed breakdown of expenses may be difficult to work out in such cases. Sometimes Plan proposals are finalised late by the Planning Commission and at other times the Expenditure Finance Committee<sup>7</sup> takes very long to accord its approval to schemes, and pending final decisions, lump-sum provisions are made in the budget. There is also another type of situation. Due to certain policies of the Government or due to some sudden decisions at the higher levels about absorbing foreign aid or providing funds for some plan schemes, a lump-sum provision is 'imposed on' the administrative ministry and it is asked to go through the various formalities with the Ministry of Finance for getting the same included in the budget estimates.<sup>8</sup> Obviously the administrative ministry would have little knowledge about the schemes to be covered by such a lump-sum provision, much less their details. Of course, these are exceptional situations which could, when they are, stand in the way of the exercise of delegated powers by the spending departments.

If a lump-sum provision results from the inability of the administrative ministries to adhere to the time schedule for budget making inasmuch as they are not ready with the necessary details of the scheme, such lapses in detailed planning on the

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<sup>7</sup>With a view to enable the Ministry of Finance to have an opportunity to consider all big projects in their various financial and economic aspects both in regard to policy and details, an Expenditure Finance Committee has been established to examine all such proposals before a formal sanction of the Ministry of Finance is accorded to the cost estimates of such projects. Expenditure proposals for schemes, amounting to more than Rs. 25 lakhs (non-recurring) and Rs. 5 lakhs per annum (recurring), are required to be submitted to the Expenditure Finance Committee in a prescribed proforma, for approval. The form of the E.F.C. memorandum is meant to elicit information regarding economic, financial and other aspects of the Scheme. The Finance Secretary of the Government of India acts as Chairman of the Expenditure Finance Committee.

<sup>8</sup>Some such cases came to light during the course of another study by

part of the departments would render schemes of delegations meaningless and inoperative. All possible measures need to be taken to curb such a tendency of the administrative ministries. They should be pressed to work out their budget proposals, supported by all the necessary details, by the scheduled dates stipulated in the budget calendar so as to obtain the clearance of the Ministry of Finance well before the final date fixed for the purpose. In the case of new schemes and such other proposals as would require long period of time for their scrutiny and examination by the Ministry of Finance before inclusion in the budget of the next year, the budget estimates should be framed by the administrative ministries as early as possible during the current year and communicated to the Finance Ministry for approval without waiting for the formal intimation from the Ministry of Finance regarding the schedule of dates for the submission of various types of budget proposals. This would provide ample time to the Ministry of Finance to consider and examine such proposals in an appropriate manner. It needs hardly any emphasis that the scheme of delegation would work best if lump-sum provisions are avoided in the budget and, in most cases, this would require advance planning of their operations on the part of the administrative ministries as part of their exercise of the formulation of budget proposals.

There may, however, arise cases as in a major project costing several crores, that the detailed project report is received very late by the administrative ministries and accordingly approval of the Finance Ministry to such a project is delayed. Even otherwise the sanction to a detailed project report of a major project is a highly time consuming process. In the meantime, however, it becomes necessary for the executing authorities to complete certain essential preliminary works like the acquisition of land, clearing of site, preparation of site and execution of preliminary civil and other ancillary works, etc. In the absence of scrutiny and approval of the detailed project report by the Ministry of Finance, the administrative ministries are not in a position to incur expenditure on the essential preliminary items relating to the project. It may be relevant to quote here the following comments of the A.R.C.'s Study Team on Financial Administration :

“A scheme of delegation of financial powers which does not

become operative until the last detail is approved by the Finance Ministry is unsatisfactory. Once the preliminary feasibility report has been prepared and accepted by Government, the administrative ministry should be permitted to sanction expenditure on essential preliminary items subject to certain limit, a proportion or percentage of estimated cost.”<sup>9</sup>

If the project is to be implemented without delay, the need for delegating some powers to the administrative ministries for incurring expenditure on the essential preliminary items becomes important. It is, therefore, suggested that after the preliminary feasibility report has been examined and approved by Government, the administrative ministries should have powers to incur expenditure within certain limits on the essential preparatory items pertaining to the project. In such cases, a small amount may be provided in the budget for the purpose.

#### *Powers of Re-Appropriation*

The Delegation of Financial Powers Rules, 1958 define Appropriation as “the assignment to meet specified expenditure, of funds included in a primary unit of appropriation”. Reappropriation is the act of transferring funds from one primary unit of appropriation to another such unit.

As stated in Chapter IV, the administrative ministries, under the Delegation Scheme of August 1958, were delegated powers to reappropriate funds in all matters except in the following cases which required concurrence of the Ministry of Finance: (a) reappropriation to augment the provision under the primary units relating to ‘Pay of Officers’ and ‘Pay of Establishment’ either for a scheme or for other types of expenditure; (b) reappropriation between the primary units under which provision is made for a scheme, involving an increase in the provision under any one such unit by more than 5 per cent or by more than Rs. 1 lakh, whichever is less; or (c) reappropriation from the provision made for a scheme to meet expenditure on any other purpose. The Delegation Scheme of June 1962 empowered the administrative ministries to reappropriate funds between primary units under which provision was made for groups of

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<sup>9</sup>cf. *Report of the Study Team on Financial Administration, op. cit.*, p. 52.



allied schemes, subject to the grouping of such allied schemes being specified with the previous consent of the Ministry of Finance. Grouping of provisions for plan items with other items was not permissible, and reappropriation of funds from plan items to meet non-plan expenditure required the concurrence of the Finance Ministry.

Under the latest Delegation Scheme of October 1968, however, the administrative ministries have been given full powers of reappropriation within a grant, provided there is no diversion of funds from plan schemes to non-plan activities and there is no augmentation of the total provision made for administrative expenses (*i.e.*, pay, allowances, and other charges) under a particular grant.

The adequacy or otherwise of the existing powers of reappropriation delegated to the administrative ministries can be gauged better if we consider the whole problem in the light of the actual operation of these powers as between the administrative ministries and the Ministry of Finance. A study of this aspect made by us in March 1967 revealed that the administrative ministries, in actual practice, enjoyed enough freedom in the matter of reappropriation of funds, even in those cases where reappropriation of funds could, under the rules, be done only with the prior sanction of the Ministry of Finance. The only thing the administrative ministries need to ensure is that savings are available under certain sub-heads of the Grant.<sup>10</sup> In cases where the administrative ministries are in a position to locate savings under certain sub-heads of a grant, there seems

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<sup>10</sup>It may be stated here that the reasons for excess in expenditure, generally, are : (i) enhancement in the rates of emoluments of the employees during the course of the financial year which could not be foreseen at the time of framing the budget estimates; (ii) abnormal rise in market prices; (iii) meeting expenditure on items not anticipated including expenditure for equipment and machinery ordered in the previous year; (iv) extension of schemes and activities and consequent outlay of expenditure not provided for in the initial budget estimates, etc. Savings become possible for various reasons, namely, (a) non-filling or late filling of vacant posts and non-creation of additional new posts; (b) non-execution of stipulated task; (c) less receipt of equipment; (d) postponement of construction of works; (e) postponement of purchases of stores; (f) late or non-arrival of experts from abroad; (g) termination of schemes earlier than provided for in the budget, etc.

to be an implicit feeling in them that the Ministry of Finance would put its seal of approval on a reappropriation proposal to divert funds from such a saving to meet an excess expenditure under some other sub-head of the same grant and the whole process is looked upon by them as one of procedural interest only. The necessary concurrence of the Ministry of Finance is never doubted in such cases. It may also be stated that the timing of transmission of most of the reappropriation proposals by the administrative ministries to the Ministry of Finance for approval is such as would not allow a reasonable opportunity to the Ministry of Finance to examine such proposals with any degree of thoroughness. The majority of such cases are submitted to the Ministry of Finance in the later half of March when in most cases the excess expenditure has already been incurred or committed by the operating agency and the Ministry of Finance has to deal with a case which is a *fait accompli* being left with no choice except to acquiesce in what has already been done.

Also, the Ministry of Finance is required to dispose of all the reappropriation cases before 31st March of that particular financial year as no reappropriation order issued after that date is accepted as valid by audit authorities. Therefore, within the few days at its disposal the Ministry of Finance has to dispose of a good lot of re-appropriation cases and, consequently, its examination of such proposals is somewhat hurried and casual generally dealt with at lower levels. It may be stated here that out of all the 142 re-appropriation orders pertaining to the various grants of an administrative department sanctioned during 1965-66 and examined by us, 82 were issued on or after 15th March, 1966. Similarly, in the case of another administrative department all the three reappropriation orders pertaining to a grant were issued after the 15th March, 1966. The same was true of another department where all the 8 reappropriation orders pertaining to a grant were issued after 15th March, 1966. The study also revealed that the Ministry of Finance hardly had sufficient time to examine with any degree of thoroughness re-appropriation cases submitted by the administrative ministries; and, since the deadline of 31st March is to be adhered to, the Ministry of Finance puts its seal of approval rather in a hurry. It would, therefore, seem that the control

exercised by the Ministry of Finance in the cases of re-appropriation of funds is more nominal than real.✓

In this context it may be pertinent to consider that since the rate of approval by the Ministry of Finance of departmental submissions of re-appropriation cases approaches almost 100 per cent, will it not be in the interests of greater efficiency and economy to delegate full powers for the disposal of such cases to the administrative ministries ? On the basis of our study cited earlier, we came to the conclusion that the administrative ministries should be vested with full powers to re-appropriate funds within a grant, subject to certain conditions. It is gratifying that the Ministry of Finance have, through their Orders of October 1968, delegated to the administrative ministries full powers of re-appropriation within a grant. But, as mentioned earlier, these powers are subject to the condition that there is no diversion of funds from plan schemes to non-plan activities, and there is no augmentation of the total provision made for administrative expenses (*i.e.*, pay, allowances, and other charges) under a particular grant.

In view of the actual operation of re-appropriation powers, as outlined earlier, it is not understood how it would serve the interests of financial control if the administrative ministries are prohibited from re-appropriating funds from plan schemes to non-plan activities even if such re-appropriation is from one development scheme to another developmental purpose. It is rather a superfluous exercise of getting a proposal for re-appropriation of funds from plan to non-plan schemes approved by the Ministry of Finance, as for all practical purposes, the Ministry of Finance endorses the decisions already made by the administrative ministries. Moreover, it is difficult to appreciate as to why a distinction should be made between plan and non-plan items in the matter of re-appropriation of funds and not between development and non-development items of expenditure. Once some funds have been invested in a particular year in building an asset under the plan, the expenditure on the operation and maintenance of this asset in the ensuing years is not treated as plan expenditure though its relevance for development cannot be questioned. It is, therefore, suggested that the administrative ministries may be delegated powers to re-appropriate funds from plan schemes to non-plan activities so long

as the latter are developmental in character.

A better procedure for financial control would be that when an administrative ministry resorts to re-appropriation from one item of expenditure to another and the amount involved exceeds a specified limit it must seek the prior concurrence of the Ministry of Finance. If the specified limit is fixed at a reasonably high level, the number of re-appropriation cases coming to the Ministry of Finance would be considerably reduced enabling it to examine such cases with a fair degree of thoroughness. It should, however, be ensured that such proposals reach the Ministry of Finance well before the close of the financial year so as to allow it sufficient time to carry out a proper examination of the re-appropriation proposals.

For cases where full powers of re-appropriation vest in the administrative ministries, it may be considered that the decision-taking should be at senior levels, say, Deputy Secretary and above depending upon the amount involved in the re-appropriation proposal. Such a system would ensure a more responsible exercise of re-appropriation powers by the administrative ministries than what obtains at present when these decisions are taken at junior levels. It may also be considered that the Demands for Grants are recast to comprise of allied and related items of expenditure only so that the intentions of Parliament in voting a Demand are not defeated afterwards by re-appropriation of funds between entirely unrelated items of expenditure.

Again, as we have seen earlier, the Delegation Scheme of October 1968 makes the exercise of powers of re-appropriation by the administrative ministries subject to the condition that there is no augmentation of the total provision made for administrative expenses (*i.e.*, pay, allowances, and other charges) under a particular grant. We do not find much of a logic in putting such a restriction on the exercise of powers of re-appropriation. We are of the view that the delegation of various other financial powers to the administrative ministries would be rendered considerably ineffective if the administrative ministries are denied powers to create the needed posts on the ground that their action should not result in augmenting the total provision made for administrative expenses.

Incidentally, we may refer here to the suggestion made by

the Study Team on Financial Administration<sup>11</sup> that there should be a greater overall control on the power of the administrative ministries to create posts. It has recommended that the proposals of the administrative ministries for additional staff or creation of posts should be considered by an independent and a well-trained Staff Inspection Unit and the administrative ministries should be precluded from augmenting the provisions under the Units 'Pay of Officers' and 'Pay of Establishment' by recourse to re-appropriation. It has further stated that in the event of a sudden increase in work or work of an emergent nature devolving on a ministry they should continue to have powers to create posts of purely temporary nature for periods not exceeding three months if funds could be found by valid re-appropriation within their budget provision. The Administrative Reforms Commission has expressed its agreement with the above suggestion of the Study Team on Financial Administration.<sup>12</sup>

We, however, find it difficult to agree with the views on the subject of either the Study Team on Financial Administration or the Administrative Reforms Commission. How do we provide an administrative ministry with the necessary operational freedom in the discharge of its functions by vesting it with powers to re-appropriate funds within a grant from one primary unit under which a saving has occurred to finance another project requiring additional expenditure if the need for this excess expenditure turns out to be no more than appointing a few additional personnel for successfully executing the project ? We would, therefore, urge that the restriction contained in the Delegation Scheme of October 1968 that there should be no augmentation of the total provision made for administrative expenses under a particular grant, as a consequence of re-appropriation of funds, is out of tune with the rest of the provisions of the scheme and is also not in consonance with the spirit in which other financial powers delegated are intended to be

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<sup>11</sup>*Report of the Study Team on Financial Administration, op. cit.*, pp. 53-55.

<sup>12</sup>Administrative Reforms Commission, *Report on Finance, Accounts and Audit*, Government of India, New Delhi, January 1968, pp. 30-31.

exercised<sup>13</sup>. When financial powers are delegated to the administrative authorities to facilitate their functioning and to make for efficiency and speed in the implementation of the programmes, it is also necessary that these authorities are vested with adequate powers of creating posts needed in the execution of their tasks. Therefore, to enable the administrative ministries to make a meaningful use of the financial powers delegated to them they should be vested with full powers to create temporary posts, for even longer durations, by re-appropriation of funds within a grant. Such powers should, however, be for the creation of temporary posts only, and in the event of these posts being made permanent the prior sanction of the Ministry of Finance should be essential. It is but reasonable that when an administrative authority proposes to bind the public exchequer with a long-term commitment by creating a permanent post, the Ministry of Finance should have final say in the matter and its prior approval should be necessary. Even where the powers are delegated for the creation of temporary posts only, it is imperative to ensure that such powers are exercised by the administrative authorities diligently and with due care of the established norms and standards. It may be added here that this is an area where much restraint and discipline has to be exercised in the use of financial powers so as to avoid adverse

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<sup>13</sup>We may quote here the views of another Study Team of the A.R.C. "At present, administrative ministries can create posts up to those of Joint Secretary's rank under their own powers subject to certain specified restrictions. We do not go along with the view of a sister Study Team that these powers should be curtailed on the ground that "there is considerable over-staffing in Government Departments" and that intra-ministry work study units have not built up the expertise required. We consider that delegations in regard to creation of posts cannot be looked at separately from the totality of financial delegations. The fundamental objective of delegating financial powers to administrative ministries is to make them as fully responsible and effective operationally as possible. It would be a contradictory and retrograde measure to make extensive delegations in their favour in other fields and to pull back in this matter of posts. If there is a fear that these powers may be misutilised, the answer should lie in the direction of building up arrangements for good financial management within ministries and a system of test checks from the Ministry of Finance rather than in the direction of recentralisation." Report of the Study Team on "Machinery of the Government of India and its Procedures of Work", Part II (Vol. I), *op. cit.*, pp. 147-148.

criticism from various quarters in the event of any increase in expenditure on staff. There should be no room left for the operation of the Parkinson's law that work expands to meet the staff. It, therefore, needs hardly any emphasis that work standards should exist in the various organizations and that new posts should be created after a thorough study of the work-load data.

Though the vesting of powers in the administrative ministries for the creation of temporary posts when needed is not disputed, it is suggested that the exercise of such powers should be subject to a thorough examination later by an independent Staff Inspection Unit staffed by trained personnel well versed in the techniques of Work Study, Work Measurement, etc. Such a course would ensure that the administrative authorities exercise their powers of creation of posts according to the accepted principles and with due regard to the canons of efficiency and economy.

### *Other Issues*

It would seem that the Ministry of Finance has been receptive to the demands for greater delegations to the administrative ministries and has been issuing orders from time to time to give effect to its various schemes for delegation of enhanced financial powers. It is, however, difficult to give a straight answer as to whether the powers delegated so far are adequate enough to meet the present needs of the administrative ministries. The nature and extent of the financial powers delegated by the Ministry of Finance to the administrative ministries would not alone provide an answer to this. The pattern of redelegations from the administrative ministries to the heads of departments and from them to the lower echelons and field agencies is also an important factor to be considered in judging the adequacy of existing delegations. Also, the needs for delegations would vary in the case of different organisations depending on their respective programme requirements and on whether they are to exercise such powers in normal times or in times of crisis and strain.

The Delegation Scheme of June 1962 exhorted the administrative ministries to re-delegate, in their turn, administrative and financial powers to heads of departments and to other subordinate authorities, with due regard to their respective levels

of responsibilities. It is well recognized that, for a system of delegations to be effective, the powers delegated should seep down the line and be commensurate with the responsibilities to be discharged at the various official levels. It is of utmost importance that the man in the field should have adequate delegations to fulfil his assignment without frequent references to higher authorities.

The delegated powers should vary according to the nature and quantum of work to be performed by the delegates. Though there are a few organizations such as the Central Public Works Department, Scientific Laboratories, etc., in which cases, special financial delegations have been made, by and large, in our delegation pattern, a sort of uniformity exists inasmuch as the same type of powers are delegated to all the administrative ministries, to all the heads of department and to the heads of office. It is not understood how the needs for financial powers of all the administrative ministries and departments would be the same? How would similar powers delegated to all types of heads of departments would meet their respective needs? Also, the different types of heads of office would require different delegations for successfully discharging their functions. The Ministry of Finance should, therefore, evolve more than one delegation pattern to meet the requirements of the various categories of administrative ministries and departments, of various types of heads of departments and heads of office, in accordance with their functional needs.<sup>14</sup> This may not, however, detract from the responsibility of the Finance Ministry in its seeking to maintain certain basic uniformity in matters like conditions of service of government employees, which are governed by various rules and regulations such as Civil Service Regulations, Fundamental Rules, etc. The delegation patterns evolved need to be reviewed from time to time in the context of increasing load of work and the changing functions and activities of the delegates. The periodical reviews by the Ministry of Finance are necessary in order to effect timely modifications in the

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<sup>14</sup>The A.R.C.'s *Study Team on Machinery of the Government of India and Its Procedures of Work*, has taken up a similar line of thinking in its report, a mention of which has already been made in an earlier Chapter of this monograph.



delegation patterns to suit the changed circumstances.

The heads of department are, at present, not authorised to re-delegate any of their powers to their subordinates. They can, however, do so with the prior consent of the administrative ministry. It has been observed that the administrative ministries are generally willing to accord approval to proposals for re-delegation submitted by the heads of department. But the procedure of going through the formality of obtaining the concurrence of the administrative ministry is time consuming. It is, therefore, suggested that the powers delegated to the heads of department may be classified into two categories. In the first category there may be delegations of a minor nature for which full powers may be vested in the head of department for re-delegation to his subordinates according to his discretion. Such a course would provide greater operational freedom to the head of department in making adjustments and re-adjustments in the re-delegation of powers to his subordinates depending on his administrative needs as well as on personality considerations of his subordinates. In the second category, there may be powers of an important nature which can be re-delegated by the head of department only after seeking the prior consent of the administrative ministry.

The delegation of adequate powers to match the responsibilities at different official levels though necessary is not enough by itself. It is of utmost importance that the delegates exercise the powers given to them so as to contribute their best to the realization of the goals and objectives of their organisations. No scheme of delegation, howsoever, well framed, would work satisfactorily unless there is a 'will' on the part of the delegates to exercise the powers and on the part of the delegator to encourage the use of the delegated powers in the spirit in which they are intended. The willingness of the delegates to use their powers would, however, greatly depend on the prevailing environment and climate in which they have to function.

There are a number of inhibiting factors to the exercise of delegated powers, which we have observed during the course of our study. Sometimes, the powers delegated are hedged by various conditions which the delegatee has to satisfy before exercising such powers. For instance, the heads of departments are empowered, under the rules, to write off a loss up to Rs. 1,000 provided : (i) it is not due to any serious negligence

on the part of any government servant, (ii) it is not due to theft, (iii) it is not due to fraud, (iv) it does not disclose a defect in rules or procedures the amendment of which requires the orders of higher authority or Finance Ministry, and so on. In such cases where the powers delegated can be exercised only after satisfying a number of conditions the tendency on the part of the delegates is to push cases to the higher authorities for obtaining their concurrence. The delegates do not feel sure of having satisfied the various conditions attached. It may be relevant to cite here a case which we examined in connection with a study of the working of delegations. In a Government's departmental undertaking engaged in the processing and distribution of milk and the production of milk products, ice-cream worth Rs. 150 melted away and was a total loss. The authorities were hesitant to pin down responsibility for the loss on any individual employee or a group of employees. This was so, presumably, because of fear of adverse reaction of Workers Union, which on practical considerations the authorities were reluctant to generate for the matter of a small loss of Rs. 150 only. At the same time, they did not want to exercise their delegated powers for write off of losses because in that case they would have to satisfy a number of conditions attached to the use of such powers. They, therefore, decided to send the case to the administrative ministry, for their concurrence in the write off of the loss. It is not suggested that the exercise of delegated powers should be completely free from restrictive conditions prescribed to maintain the necessary financial discipline. However, it may be worthwhile to give thought to the question that the conditions attached to the exercise of delegated powers should not be so many and of a nature largely inhibiting the use of such powers. It would perhaps be better to delegate comparatively lesser powers to the administrative and executive authorities and leave them with relatively greater amount of discretion in the exercise of such powers than to arm them with larger powers which are hedged in their operation by a plethora of restrictive conditions.

There are also other situations in which the delegated powers cannot be utilised because certain conditions attached to the exercise of such powers have remained unfulfilled. For instance, the administrative ministries and the executing agencies under

them are delegated powers to distribute subsidies and loans for certain specific purposes. The exercise of these powers is, however, subject to the condition that the rules governing the administration of such subsidies and loans should have been approved by the Ministry of Finance. Since it takes long to get such rules and regulations approved by the Ministry of Finance, the powers of the administrative authorities to distribute subsidies and loans remain suspended even though there would exist a budget provision for the purpose. *Ad hoc* references in such cases have to be made to the Ministry of Finance before the administrative ministries could sanction grants-in-aid. It is, therefore, important that serious attention is given and sincere attempts are made in completing the various formalities and requirements attached to the delegated powers before the administrative authorities are supposed to exercise such powers.

There is another factor responsible for holding officers from exercising their powers. Fear of audit objections drives them to play safe. Such fears manifest themselves in the form of frequent references to higher authorities in doubtful cases which often undermine the very spirit and purpose of delegations. The psychology of 'fear of audit' and 'public criticism' tends to sap the initiative of the officers. A majority of the civil servants instead of displaying willingness to accept responsibility find it expedient to just 'carry on', wholly disinclined to take decisions on their own, and involving the higher ups in everything they do. This has resulted in the slowing down of the administrative machinery at a time when the civil servants are supposed to assume larger responsibilities of vastly expanded nation-building activities.

Decisions of the administrators are often probed long after the event and when the context in which such decisions were taken has completely changed. Often they get demoralised when their individual acts of discretion are questioned. Sometimes audit objections are raised on petty and small matters and the concerned officer has to explain the lapse years after the event when he might have been transferred to another organisation and become completely out of touch with his previous work. To avoid landing into such like situations, the officers shy away from the exercise of discretion and prefer not to use the powers delegated to them. They try to involve as many authorities and

agencies as possible in the decision-making process. Thus, the fear of being judged unfairly later for any lapse, major or minor or for any error of judgment, acts as a big restraining influence on the officers in the matter of using their powers and taking decisions.

There may also be interference or pressure from above which makes it difficult for a delegatee to exercise his powers. Sometimes verbal instructions from the bosses and directives given in high level meetings hold the officers from exercising their powers thereby rendering the delegations ineffective. At times, enhanced powers are delegated to the officers without their proper orientation and training for the purpose. Quite often they lack the requisite facilities of administrative and accounts support necessary for the exercise of such powers. It is, therefore, suggested that adequate preparations should be made before launching a delegation scheme and the delegates be provided with the necessary training to enable them to discharge their functions in an efficient manner. The delegates should also be provided with all the facilities and assistance needed in the exercise of their powers.

Another important factor responsible for discouraging the officers from using their powers is the multiplicity of rules and regulations which are changed so often that the officers generally do not feel confident of knowing all the relevant rules while exercising their powers. In their eagerness to avoid mistakes they are prompted to consult higher authorities and seek their concurrence. Professor Marshall Dimock has expressed the following opinion in his book "Stages of Administrative Growth" :

"Abundance of rules and regulations and manuals is generally noticed when there is no growth but a comparatively even and stable stage in administration had been reached.

In the stage of rapid growth (development and modernisation at a fast rate) there is a need for less regulations and manuals so that hundreds of difficult and hard-hitting decisions required to be taken by an administrator can be taken unhampered by cramping fetters of rules and regulations. In this stage special type of administrators are required who can conceive of schemes and programmes and implement them in the shortest possible time regardless

of rules and forms.”<sup>15</sup> ✓

In our administrative system, apart from the tendency towards proliferation of rules and regulations, no regular arrangement has been devised for keeping such rules and regulations up-to-date and making them available to the ministries, departments and government officers in their revised and updated form.

It may facilitate exercise of delegated powers if up-to-date manuals are prepared containing the various financial rules and regulations which an officer would need to know in his day-to-day functioning. Also, a serious attempt should be made towards simplification and rationalisation of such rules and regulations and for elimination of the redundant ones. It would further be useful if each department of the Government clearly demarcates responsibilities of each of its officers and makes available for their use an up-to-date booklet containing functions and powers delegated to the officers at various levels.

✓ For a meaningful operation of a scheme of delegations, the exercise of powers by the delegates should be insisted upon. The Ministry of Finance should send back a case without expressing its views if the matter fell within the delegated powers of an administrative ministry. The same way the administrative ministries and heads of departments should insist upon the decisions being taken at levels vested with adequate powers. The need for speedy and efficient despatch of the public business makes it imperative that the functionaries at different levels should make full use of the powers delegated to them. All administrative steps should be taken to ensure such a use of powers. When references are made to the higher authorities despite specific delegations being available, senior officers should return such cases to the subordinate officials without expressing their views thereby compelling the subordinates to take decisions falling within their ambit of authority and responsibility. Efforts towards ‘neck preservation’ at lower levels should be discouraged in practice.

The taking up of more and more responsibility consequent on the use of one’s full powers is likely to lead to some honest

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<sup>15</sup>cf. Marshall Dimock, *Stages of Administrative Growth*, Indian Institute of Public Administration, New Delhi, 1966.

errors being committed in the discharge of one's duties. The delegatee in such a situation would need a feeling of security which could be developed in him only if his evaluation is done on objective overall considerations without making much of petty lapses. In the event of a genuine mistake committed in good faith, the subordinate official should be given proper and adequate protection. The exercise of powers by the delegatee, who has used his best judgment with due care, should be shown all sympathy and consideration by the higher authorities. There is an urgent need to remove from the minds of the officers the fear that they are likely to be judged unfairly if individual acts of judgment and discretion come to be questioned later. "A system of delegation will work effectively only if it is based on a trust of those working 'on-the-spot'. Trust begets trust. A system which is based on a nagging distrust of those exercising powers will be destructive of initiative the exercise of which is essential on a large scale in this era of development."<sup>16</sup>

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<sup>16</sup>Administrative Reforms Commission, *Report on Delegation of Financial and Administrative Powers. op. cit.*, p. (L) para 4.

## Performance Budgeting and Delegations

The existing budgetary system in India is designed to serve the purposes of financial and legal accountability of the Executive to Parliament and, within the Executive, of spending authorities to controlling officers. The budget emphasises the financial aspects and is intended to ensure that funds are raised and expenditure incurred by specific executive authorities in accordance with legislative authorisations. The structure of the budget is such that expenditure of each department and agency is delineated in terms of objects of expenditure such as establishment, allowances and honoraria, travel, etc. Such a classification of expenditure expressed in terms of the various

equipment and so on when adjusted and consolidated for the entire government sector, may give an idea of the contribution of the public sector to the national income. It, however, does not convey much to an average legislator or other members of the public who are primarily interested in knowing as to what the Government proposes to do, how much, when and at what cost.

The budget, in its present form, does not inter-relate financial outlays with physical targets. It provides no indicator of the relationship between estimated inputs and the expected outputs as an integral part of the budget. Such a system of budgeting did not create much difficulty in the past because of the small magnitude of government expenditure catering to a limited number of activities. Since Independence, however, owing to the growing size and complexity of governmental activities as a result of development planning, the conventional budget has failed to meet the demands of plan implementation. It has proved clearly deficient as a tool for management and as an instrument for evaluation of performance. The Working Group on Performance Budgeting has observed : "From the view point of the plan implementation, our budgets have failed to provide an adequate link between the financial outlays and physical targets notwithstanding the growing amount of data now being supplied in the budget documents."<sup>1</sup>

A strong need has, therefore, been felt to reorient our budgetary system to the new responsibilities of administration in implementing the planned programmes. It has been considered important that the budget should provide a full grasp of all the activities of the Government to enable a proper assessment of its efforts. The fulfilment of the planned objectives will be greatly facilitated if the budget provided a comprehensive picture of what the government proposed to do in terms of functions, programmes, activities, projects and tasks, depicting as accurately as possible the costs of the governmental activities and the accomplishments expected therefrom.

It is in this context that demand has been made from time to time for the introduction of Performance Budgeting in India.

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<sup>1</sup>Administrative Reforms Commission, *Report of the Study Team on Financial Administration*, May 1967, Accompaniment A, p. 166.



Performance Budgeting is a technique of presenting public expenditure in terms of functions, programmes, activities and projects, and correlating the physical and financial aspects of the individual items comprising the budget. According to the Hoover Commission, "such an approach would focus attention upon the general character and relative importance of the work to be done or upon the service to be rendered, rather than upon the things to be acquired such as personnel services, supplies, equipment and so on. These latter objects are, after all, only the means to an end. The all important thing in budgeting is the work or the service to be accomplished, and what that work or service will cost."<sup>2</sup> Under Performance Budgeting emphasis is laid on the accomplishments or the ends to be served rather than on the means of accomplishment or on the expenditure incurred on several items of inputs. A Performance Budget would indicate the objectives of a particular governmental programme or activity, the volume of work to be performed at the various levels of responsibility and the expected costs of the respective operations. Such a budget developed in terms of costs and volume of work becomes an effective tool of management and provides a built-in mechanism for appraisal of actual performance against the budgeted targets. It generates adequate and requisite information on costs and work accomplishments for a sound decision making at appropriate levels of management. According to the Administrative Reforms Commission, Performance Budgeting seeks to achieve the following important objectives :

- “(a) to present more clearly the purposes and objectives for which the funds are sought and to bring about the programmes and accomplishments in financial and physical terms;
- (b) to help a better understanding and better review of the budget by the Legislature;
- (c) to improve the formulation of the budget and to facilitate the process of decision making at all levels of

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<sup>2</sup>Federal Government of U.S.A., The Commission on the Organisation of the Executive Branch of the Government—Chairman: Herbert Hoover—*Report on Budgeting and Accounting*, 1949. The concept of Performance Budgeting got publicity as a result of the Report (1949) of the first Hoover Commission.

Government;

- (d) to enhance the accountability of the management and at the same time to provide an additional tool to management to provide control of financial operations; and
- (e) to render performance audit more purposeful and effective.”<sup>3</sup>

In India, for the first time a demand for the introduction of Performance Budgeting was made in the Lok Sabha in 1954 during the course of a debate on the Finance Ministry's control over expenditure. Later, the Speaker of the Lok Sabha himself took up this theme in the course of his address to the annual conference of the Presiding Officers. A notable development, however, took place when the Estimates Committee of the Second Lok Sabha in its Twentieth Report on Budgetary Reforms recommended :

“Performance-cum-Programme system of Budgeting would be ideal for a proper appreciation of the schemes and outlays included in the Budget especially in the case of large-scale developmental activities. The Performance Budgeting should be the goal which should be reached gradually and by progressive stages without any serious budgeting dislocation. It is to be hoped that the experiment towards performance budgeting on a selective basis in order to supplement the traditional budget would be expected and that the 1959-60 budget contain concrete result of it at least in the case of selected ministries or projects.”<sup>4</sup>

The Government took note of the suggestion of the Estimates Committee and stated that the matter was under examination for finding out the feasibility of the use of the technique of Performance Budgeting. The Estimates Committee reiterated its suggestion regarding the introduction of Performance Budgeting in its Sixtieth Report on Budgetary Reforms.<sup>5</sup> In its seventy-

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<sup>3</sup>Government of India, Administrative Reforms Commission, *Report on Finance, Accounts and Audit*, January 1968, p. 7.

<sup>4</sup>Estimates Committee, Second Lok Sabha, *Twentieth Report* (1957-58) on *Budgetary Reforms*, Lok Sabha, Secretariat, New Delhi, 1959, p. 12, paras 21-22.

<sup>5</sup>Estimates Committee, Second Lok Sabha, *Sixtieth Report* (1958-59) on *Budgetary Reforms*, Lok Sabha Secretariat, New Delhi, 1959, pp. 34-37.

third Report on Preparation of Budget Estimates of Public Undertakings, the Estimates Committee again took up the point and stressed the need for the preparation of Performance-cum-Programme statements by industrial undertakings.<sup>6</sup> Thereupon the Government issued a circular in June 1961 drawing the attention of the administrative ministries to the recommendations of the Estimates Committee and requesting them to issue suitable instructions to the public undertakings preparing Performance-cum-Programme statements besides business type budgets for submission to Parliament.

An important event in the budgetary history of India came when the Administrative Reforms Commission, in its report on Finance, Accounts and Audit, recommended the introduction of Performance Budgeting in the departments and organisations which are in direct charge of developmental programmes.<sup>7</sup> The Government of India have accepted this recommendation of the Administrative Reforms Commission. The Government have followed it up with the preparation of alternative presentations of the budgets of a number of ministries and departments on performance basis. This, however, is an initial step towards the installation of Performance Budgeting as a tool of management of developmental programmes. Such a budget would specify physical targets to be accomplished according to a time-schedule. The execution of the budget, therefore, has to be achieved through specific assignments of responsibilities. The implementation of tasks and achievements of targets has to be related to the time-cost requirements. Under a system of Performance Budgeting, therefore, it would be necessary to indicate the volume of work to be taken up by the functionaries at various levels who become responsible for their performance in achieving the targets.

An adequate information system for performance reporting is a necessary adjunct to Performance Budgeting. It is admitted that even at present some sort of information system is in

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<sup>6</sup>Estimates Committee, Second Lok Sabha, *Seventy-third Report (1959-60) on Preparation of Budget Estimates of Public Undertakings and Presentation of their Annual Reports and Accounts to Parliament*, Lok Sabha Secretariat, New Delhi, 1960, pp. 3-4, paras 3-4.

<sup>7</sup>See Report of the Administrative Reforms Commission (Government of India) on Finance, Accounts and Audit, January 1968, pp. 6-8.

existence. But, under the present system, the reporting is mainly in financial terms by way of a chronological statement of expenditure incurred against the budgeted appropriations. In the case of major projects, however, an attempt is made to incorporate in the reports more information on the physical aspects of the project. But, by and large, our present reporting system remains financial in character. There is no systematic attempt made to relate the financial progress with the physical achievements. Such a reporting system could serve well the purposes of appropriation control to keep expenditure within the authorised amounts. It is, however, highly inadequate for the purposes of Performance Budgeting which requires periodic assessment of physical and financial progress of governmental activities on the basis of a single report.

A performance report is an indispensable aid to internal management. It hardly needs emphasis that Performance Budgeting makes it comparatively easier to assign clear and definite responsibilities to functionaries at various levels. Along with a sound system of performance reporting, Performance Budget should greatly facilitate performance appraisal and make for accountability of operating officials and agencies to the reviewing and administrative authorities. Enforcing accountability under such a system of budgeting would, however, make provision of necessary operational facilities to the various functionaries imperative. It would necessitate delegation of adequate powers commensurate with the duties and tasks entrusted to the various operating levels of responsibility. It may be stated that delegation of powers when accompanied by the necessary review processes and control mechanism would help in ensuring executive accountability along with the requisite operational freedom.

In a scheme of Performance Budgeting, therefore, patterns of delegation would assume added significance as means of accomplishing the physical goals of the organisations. In this context, apart from a proper matching of authority and responsibility at various operational levels of performance, adequate attention need also be paid to creating the right type of climate and environment for motivating the delegates to exercise their powers for the effective performance of the tasks assigned to them.

As is well known, Performance Budgeting concept is borrowed from private business where budgeting in terms of the various purposes and levels of responsibility has been in vogue for quite some time. Insofar as a Performance Budget is a work plan to be implemented at a predetermined cost, such a budget needs to be built from below in terms of each operating level of responsibility. Budget ought to be born where it has to be carried out. In industry it is called a Responsibility Centre. A responsibility centre may coincide with a cost centre or may comprise of several Cost Centres. Each cost centre may consist of a group of like machines doing a particular job or a group of machines complementing each other in completing one stage of production. It is possible to assess the normal working capacity of each machine or group of machines depending on the number of days in a week, number of shifts in a day, number of hours in a shift, intensity of work and so on in evolving a work norm or standard for each machine, each worker or each material used and so on, so that some predetermined or standard cost for a planned volume of work could be used as the basis for budgeting for each responsibility or cost centre. It is obvious that such a budget would be a realistic and inspiring plan of action only if the men and first line supervisors are fully associated with the preparation of the budget. Since the budget is one of the principal instruments of managerial control and appraisal of performance of individuals and levels of responsibilities it would be worthwhile to prepare these budgets relating to operating levels. As such it would be desirable to include only those costs which are controllable at each level of responsibility. Done this way, managerial control on the basis of responsibility accounting will be immensely facilitated. It goes without saying that powers needed for the controlled discharge of responsibilities should be conferred on the various levels of management. Such a synchronisation of powers and responsibilities as well as the collection of controllable costs in terms of identifiable centres of responsibility assumes greater significance in general government where the operating levels are physically not so proximate or accessible to top management. Performance Budgeting may flounder in the absence of such decentralised budgetary involvement and control.

As stated earlier, Performance Budgeting envisages suitable

review of performance at various levels of operation. Such a review and control is largely based on meaningful reporting systems geared to managerial control. In this context, it may be worthwhile examining the role of the Audit as an external agency for evaluating the performance of various organisations. The Administrative Reforms Commission in their Report on "Finance, Accounts and Audit" have emphasized that the Comptroller and Auditor General should undertake propriety-cum-efficiency audit to cover all developmental activities of Government.<sup>8</sup> As has been observed earlier, if the decisions of the administrators taken in their best judgment are probed long after the event and out of context of the circumstances then existing, it is bound to lead to irritations and heart-burning among the officers and would leave a demoralising effect on them. Efficiency audit by an outside authority would give a handle to the audit agency to question individual acts of discretion and the soundness of an officer's judgment. Such a development is bound to vitiate the climate for the exercise of delegated powers by the functionaries. The officers under such a situation would prefer to play safe and avoid taking decisions and responsibility. With the prevailing approaches, practices and attitudes, we feel that efficiency audit by an external agency would be a serious inhibiting factor to the exercise of powers by the delegates, resulting in delays, inefficiency and uneconomic implementation of the programmes.

We could also look at the problem from another angle. The present audit authority as it is constituted, conducts audit, by and large, with the assistance of auditors who belong to lower clerical cadres. It is true that other subordinate officers, namely, Accountants (non-gazetted) and Accounts Officers (Gazetted Class II) supervise the work of the audit teams which are further placed under the charge of a Deputy Accountant General. But the fact remains that the bulk of such work is done by the functionaries at the lower rungs, namely, auditors and accountants. The question, therefore, arises as to whether such a body of officials would be competent to conduct efficiency audit of other organisations? Will it not seriously vitiate the climate for the exercise of delegated powers by the officers when

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<sup>8</sup>Government of India, Administrative Reforms Commission, *Report on Finance, Accounts and Audit*, January 1968, p. 51.

they know that their judgments and actions would be commented upon later by these junior officers from the Comptroller and Auditor General's organisation ? A comment on the efficiency of another officer would evoke respect only when the Auditor so doing is of a reasonably senior rank. Also, such an auditor should have built up a reputation about his knowledge of the specialised area in which he conducts efficiency audit.

In view of the present shortage of trained manpower of the specific type, a further question arises as to whether it would be possible for the Comptroller and Auditor General to raise a large contingent of senior officers, divided into teams of specialists, for conducting efficiency audit in the various specialized fields to cover all developmental activities of the Government. If attempted, will the cost of such a measure be not prohibitive ? We are, therefore, of the view that the work of efficiency audit should not be assigned to an outside authority like the Comptroller and Auditor General's organisation.

The Government of India, while not accepting this recommendation of the Administrative Reforms Commission, has stated as follows :

"While there should be no objection if, in the normal course of audit, the C. & A. G. were to give attention to financial procedures rather than to individual lapses, it is felt that any enlargement of the scope of audit activity into the sphere of managerial responsibilities or to include propriety-cum-efficiency audit may have adverse repercussions and may hamper efficiency of governmental functioning. Government do not, therefore, support the recommendation."<sup>9</sup>

It is, therefore, suggested that the significance of the functions of the Comptroller and Auditor General's organisation should not be exaggerated to include efficiency audit of all developmental activities of Government.

This is, however, not to deny the importance of the regularity-cum-propriety audit which the organisation of the Comptroller

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<sup>9</sup>The Government of India has, however, accepted the recommendation of the Administrative Reforms Commission for the constitution of Audit Boards to conduct performance audit of public undertakings. Such Audit Boards have been functioning under the Comptroller and Auditor General since April 1969.

and Auditor General is already conducting and which should continue to remain its responsibility. But, the task of efficiency audit should be an internal function carried out by an agency under the charge of the Chief Executive of the department/organisation who is to be ultimately responsible and accountable for the achievement of results in terms of the objectives and targets laid out for his organisation. The Chief Executive would be in a better position to gear such an internal audit agency to the needs of his organization keeping in view the various considerations and maintaining the necessary climate for the proper exercise of delegated powers and shouldering of responsibility. Higher authorities like the administrative ministry and the Cabinet would also be there to sit in judgment on the overall performance of a department/organisation.



## 8

# The System of Financial Advice

It has been the refrain of various recommendations for reforms in the system of budgeting and financial control that the control exercised by the Ministry of Finance should be in broad terms on issues of policy and the day to day matters of details should be left to be looked after by the administrative ministries concerned. This would necessitate delegation of adequate financial powers to the administrative ministries as well as the requisite aids and facilities for a meaningful exercise of such powers. An important suggestion, in this context, has been to make available to the administrative ministries services of financial advisers who could render expert advice and assist them in an effective exercise of their financial powers and an

efficient discharge of their functions.

A distinction may, however, be made between the role and functions of an Internal Financial Adviser and the position of an External Financial Adviser. An Internal Financial Adviser is an integral part of the administrative ministry which he assists in the exercise of its delegated powers and also in the processing of cases requiring reference to the Ministry of Finance. He does not exercise any powers on behalf of the Ministry of Finance. The External Financial Adviser, on the other hand, functions on behalf of the Ministry of Finance and also exercises some of its powers. He is under the administrative control of the Finance Ministry for the proper discharge of his functions. In certain situations, however, when he is called upon to tender advice to the administrative ministries in the exercise of its delegated powers, he does so in addition to his duties in the Finance Ministry and therefore combines in himself the roles of both the External and the Internal Financial Advisers.

With the increase in the volume of governmental expenditure and the complex nature it has gradually assumed, it was felt as far back as the late 'thirties of the present century that the administrative personnel in the spending departments were not competent enough technically to deal with the newly emerging financial and economic matters. Absence of financial expertise and lack of adequate knowledge of the financial principles and procedures in the administrative departments often led to considerable delays and financial irregularities. The Government of India tried to meet the situation by creating in the year 1939 a cadre of officers known as the 'Commerce and Finance Pool', which was to specialise in manning posts in the field of economic and financial administration. Picked officers from various services like Indian Civil Service, Indian Audit and Accounts Service, etc., were drawn into this cadre which was placed under the administrative control of the Department of Finance. The officers comprising the cadre were given intensive training in various fields of economic management and financial administration to develop their capabilities to serve efficiently in the positions marked for them. The financial knowledge, thus, tended to become a specialised forte of these pool officers and the Government depended on them for the transaction of

financial work. This also resulted in the administrative departments not bothering to develop a 'financial consciousness' within their organisations and treating the Finance Department as a repository of all financial competence and wisdom.

At the time of outbreak of the Second World War there were only a few government organisations such as, Defence, Posts and Telegraphs and Railways which had a senior functionary attached to each of them for purposes of rendering financial advice. Financial Advisers were attached to Defence Department and the Posts and Telegraphs and there was a Financial Commissioner for the Railways. But, by and large, the general pattern of centralised financial control directly through the Department of Finance continued in the case of most of the Government departments. This system was, however, altered during World War II in the case of the Departments of Industries and Supply when a separate division of the Department of Finance was established with the functions to render financial advice and to work in intimate contact with these departments. This change in the organisational pattern of the Finance Department was necessitated by the circumstances created by the war when new problems of expenditure control created by large outlays for war purposes had to be tackled urgently. The situation called for at least a provisional suspension of the conventional rules and procedures in the case of matters intimately connected with war efforts. The prevailing procedures for concluding contracts with private parties for the supply of war materials, which necessitated prior consultation with the Finance Department, required to be modified so as to bring them in tune with the operational needs of the war. There was a felt need for a system of expenditure control which would ensure best utilisation of the available resources while at the same time facilitating and promoting the war efforts.

The newly evolved system established a Supply Finance Division under the charge of a Financial Adviser who was to work in close association with the Department of Industries and Supplies. The Financial Adviser represented the Finance Department and considered the proposals of the administrative department on its behalf. However, in the disposal of cases

involving significant deviations from the normal procedures, he was required to have prior consultations with the Finance Secretary. The relationship established between the Supply Finance Division and the Department of Supplies facilitated expeditious disposal of cases. It also enabled the Finance Department to examine proposals submitted by the Supplies Department in a proper perspective, having knowledge of such proposals right from their embryonic stage.<sup>1</sup> However, this experiment with a system of financial advice, though liked by the administrative departments, was abandoned towards the close of the War and replaced by the earlier system of centralised financial control through the Department of Finance.

Richard Tottenham who submitted a series of reports during 1945-46 on the 'Reorganisation of Central Government' recommended that every spending department should have a trained finance officer of its own as Financial Adviser. He wanted such an officer to act more as an officer of the administrative department than as a watchdog representative of the Department of Finance. Tottenham ascribed most of the irritations arising during the process of consultations with the Finance Department to limited powers enjoyed by the administrative departments. He thought that such a friction could be avoided by 'putting financial responsibility more squarely on the shoulders of the spending departments and by demanding of them a more intelligent forecast of their future financial requirements and a greater interest in the economical expenditure of their grants.'<sup>2</sup> Nothing came out of the recommendations made in this respect by Tottenham, as the climate then was not conducive to consideration of the problems like financial reorganisation. The Government's attention was engaged in more pressing political issues of the time.

The next attempt in this direction came from another Committee known as the Secretariat Reorganisation Committee also known as the Bajpai Committee or Officer Shortage

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<sup>1</sup>The Supply Finance Division had a Cost Accounting Organisation to assist it in its function of carrying out technical examination of the contracts.

<sup>2</sup>R. Tottenham, *Report on the Reorganisation of the Central Government*, 1645-46, p. 13.

Committee, which submitted its report in August 1947. The deliberations of the Committee were, *inter alia*, greatly concerned with the problem of delay in the transaction of government business. Delays were particularly noticeable in matters involving consultations with the Department of Finance. This problem had to be viewed in the context of post-war reconstruction and development which the Government had undertaken. The Committee, therefore, recommended that the day-to-day scrutiny of proposals of the administrative departments should be done by finance officers (officials of the Finance Department) each one of whom should be placed in direct relationship with an administrative department or a group of departments. The Committee envisaged the role of the Finance Department as one of giving guidance and advice to the administrative departments rather than interfering in their day-to-day work. The Committee also recommended that the rank of the finance officer attached to an administrative department should not be less than that of a Joint Secretary so that his advice would carry weight with the secretary of the department. The administrative secretary could rely on the advice tendered by such a senior officer as embodying, in most of the cases, the answer of the Finance Department. In line with this thinking the Committee considered that posting too many junior officers to assist the Attached Finance Officer would not be good as it was likely to keep the Finance officer out of the administrative picture and would nullify the whole objective of the scheme. The recommendations of the Secretariat Reorganisation Committee, however, did not result in any change in the then existing pattern of financial control.

This was followed by another administrative reforms enquiry conducted by the Economy Committee. The Economy Committee which submitted its report in 1949 described the control exercised by the Ministry of Finance as "ritualistic and ineffective rather than intelligent and progressive". It advocated a role for the Ministry of Finance in which its assistance could be 'constructive' rather than 'obstructive'. Also, the Committee found that there was not much of a complaint from those ministries which had financial advisers from the very beginning such as Defence. The same was the case with the Ministry of Industry which had the tradition of associating financial advisers rather

intimately with their administrative work. Moreover, by the year 1949, the administrative implications of the post-partition problems had become clear and also the committee had in mind the successful working of the Financial Adviser system during the war. The Committee, therefore, recommended : "that the Joint and Deputy Secretaries in Expenditure Divisions should be geographically so located as to sit near one or more of the ministries to which they are accredited and the ministries should be encouraged to consult them at as early a stage of the proposals as possible. The present sense of frustration should then decrease. In order to emphasise the advice aspect, the officers should be designated 'Financial Advisers'." The Committee also recommended that the Financial Advisers should be given extensive powers. It did not approve of the then existing practice of the accredited divisions not taking decisions themselves on the proposals for creation of posts submitted by the administrative ministries. Such proposals were referred by the accredited divisions to the Establishment Division (of the Ministry of Finance) which coordinated action on them.

In November 1949, even before any action could be taken on the recommendations of the Economy Committee, N. Gopalaswami Ayyangar, then a minister in the central cabinet, submitted his report to the Government, suggesting certain administrative reforms. While recognising that there was far too much centralisation resulting in considerable delays in obtaining financial sanctions, Ayyangar was of the view that the entire fault did not lay on one side only. He stated, "I have no doubt that the administrative ministries and departments are also to blame. Even in normal times, the interests of the tax-payers could not be left entirely to the spending departments."<sup>3</sup> While recognising the need for reform in the system of financial control, Ayyangar felt that a radical departure from the existing procedures was not warranted. He thought that the problem could be tackled by bringing about "such changes in the machinery and procedure as would render the processes of expenditure sanction more intelligent, well-informed and speedy, and thereby remove the sense of frustration which afflicts, at any rate, several ministries and departments

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<sup>3</sup>N. Gopalaswami Ayyangar, *Report on Reorganisation of the Government*, Government of India, 1949, p. 50.

at present; and, at the same time, to tighten up the process of budget control of expenditure and to promote economy-consciousness and a sense of financial responsibility throughout all administrative departments, which are the really effective safe-guards against extravagance.”<sup>4</sup>

Ayyangar advocated a permanent financial advisory organisation for the administrative ministries on the pattern as existed in the Ministry of Defence. He, however, thought that multiplication of similar agencies for each department to deal with a relatively small volume of work would neither be necessary nor administratively feasible as ‘it would not be possible to allocate to each department an officer of sufficient seniority and experience who can be entrusted with the requisite degree of delegated authority.’<sup>5</sup> In working the changed system of financial control suggested by him, the dearth of competent and senior finance personnel was considered to be a serious problem to be reckoned with. He commended : “A Financial Adviser whom necessary authority is not delegated would be useless. Equally useless would be a financial advisory organisation which is not located in close proximity to the administrative organisation which it is intended to serve and is linked with it on a practically permanent basis.”<sup>6</sup> To overcome the problem of shortage of senior personnel, he suggested, as an alternative, that the Ministry of Finance should be reorganised into two departments. One of these departments could be assigned the task of dealing with proposals of civil expenditure, and the other could concern itself with the control of defence expenditure. The control of civil expenditure should be the entire responsibility of the Civil Finance Department which should be vested with full authority for the purpose. Ayyangar also recommended that the Department of Civil Finance should be so organised as to enable improved functioning of its divisions associated with different administrative ministries.

The weakness of the administrative ministries in developing financial competence of their own was markedly noticed by Paul H. Appleby who observed in his second report submitted

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<sup>4</sup>N. Gopalaswami Ayyangar, *op. cit.*, p. 50-51.

<sup>5</sup>*Ibid*, p. 21.

<sup>6</sup>*Ibid*, p. 21.

to the Government of India :

“The present system has the character of a vicious circle in which exclusive reliance on Finance, and in less degree on Home Affairs, has prevented the programme ministries from developing a competence in the translation of technical schemes into sound and convincing budgetary and expenditure proposals. Indeed, the schemes never are so translated; the judgement of Finance officials is a substitute for a systematic formulation. Because the necessary capacities of the ministries have not been developed, it is explained that Finance must exercise a programmatic judgement as a concomitant of its financial function, and reliance on the exercise of this function tends to grow instead of diminishing<sup>7</sup>.”

He had also remarked in the same report :

“The expenditures control is used to far too great an extent as a substitute for good budgeting; it is a way of making the actual budget after the putative budget has been presented to and approved by the Parliament<sup>8</sup>”.

Also, the system under which the Finance Ministry attached one of its officers to an administrative Ministry as Financial Adviser did not find favour with Appleby.

At the request of the Public Accounts Committee, A. K. Chanda, the then Comptroller and Auditor General of India, formulated his suggestions for reforms in the system of financial Control.<sup>9</sup> His main line of thinking was that financial scrutiny should be conducted in two parts : (i) broad and overall scrutiny located in the Finance Ministry, and (ii) detailed scrutiny, at expert level, located within the administrative ministries. He considered that the financial advice tendered by the Ministry of Finance to the administrative ministries was somewhat unreal. He was of the opinion that financial advice and assistance should be available within an administrative ministry itself. It was only then that the principle of

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<sup>7</sup>Paul H. Appleby, *Re-examination of India's Administrative System*, *op. cit.*, p. 33.

<sup>8</sup>*Ibid*, p. 21.

<sup>9</sup>His suggestions were later included in an Appendix to the Audit Report—Civil, 1955.



administrative responsibility could be adequately implemented. In the existing system, he pointed out that there was a divorce between authority and responsibility. He, therefore, recommended that the administrative ministries should be provided with Internal Financial Advisers. These officers could be drawn from a panel of officers, constituted with the approval of the Union Finance Minister. They should, however, be inter-changeable between the Finance Ministry and administrative ministries at suitable intervals.

Chanda recommended that the Internal Financial Advisers should be associated in the exercise of delegated powers by the administrative ministries. Such a course alongwith delegation of enhanced financial powers to the administrative ministries would prove immensely helpful in improving financial administration. It would also bring together the administrative authorities and the financial experts to work out expenditure proposals as a joint endeavour. Such a system should promote efficiency and economy and result in speedy implementation of projects. It should also arouse financial consciousness of various levels of spending authorities. The Internal Financial Adviser could also be helpful in organising a machinery for watching the progress of expenditure within the administrative ministry and for assessing achievements in the implementation of programmes. He could devise such techniques for the purpose as would enable him to discharge his responsibilities in a most efficient manner. Chanda thought that the introduction of the scheme of decentralisation of accounting responsibilities to administrative ministries would be of great help to these finance officers for effectively organising the processes of expenditure control.

By this time the Government of India was already seized of the question of reforms in the system of financial control. They had adopted the line of thinking that budgetary and financial competence should be developed in the administrative ministries so that their proposals involving expenditure and requiring financial advice could be properly vetted to enable financial concurrence to be accorded as expeditiously as possible. Accordingly, a scheme was introduced in 1956, on an experimental basis, in the Ministry of Irrigation and Power under which an Internal Financial Adviser of the rank of a

Deputy Secretary to the Government of India was posted with functions to scrutinise all financial proposals relating to the multipurpose projects, etc., and to assist the Secretary of the Ministry in all financial matters.

The suggestions of Chanda were, therefore, thoroughly considered in Government, and the Ministry of Finance in its reply<sup>10</sup> furnished to the Public Accounts Committee observed as follows :

“While the objective of the Government of India is that the Indian system of financial advice and control should be ultimately modelled on the U.K. pattern, where there is a financial expert in charge of an internal financial organisation working inside each ministry, it must be recognised that the shortage of trained finance officers in India and the difference between the U.K. and India in regard to the organisation of the civil services make it necessary to introduce the scheme of appointment of internal financial advisers in the ministries of the Government of India only gradually and with suitable adaptations that may be found necessary in the light of actual experience.... Conditions in India at present are somewhat different and while it is accepted that internal competence must be developed in the Ministries as much as possible, (for example, by the exchange of officers between Finance and administrative ministries) the extent and nature of the control to be exercised by the Finance Ministry must be left to be determined by the Finance Minister in a manner which will enable him to discharge adequately his responsibilities to the Cabinet and to the Parliament”.<sup>11</sup>

The reply of the Finance Ministry also referred to the arrangements introduced a little before for tendering financial advice to the administrative ministries. Under the new scheme, an officer of the rank of Under Secretary or Deputy Secre-

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<sup>10</sup>The Ministry of Finance (Department of Expenditure) in its reply submitted in July 1957 to the Public Accounts Committee gave its comments on the proposals of Chanda.

<sup>11</sup>Public Accounts Committee, Second Lok Sabha, *Eighth Report on Budget Estimates and Financial Control*, Lok Sabha Secretariat, New Delhi, April, 1958, Annexure II, p. 27.

tary depending upon the nature of the work to be handled, had been appointed as Attached Financial Adviser to each administrative ministry or department. The attached financial adviser was to be available to the administrative ministry in its day-to-day work of financial nature and also for consultations from the earliest stages of the formulation of a scheme or a project. The Ministry of Finance in its reply expressed the hope that the new arrangements would train up a large number of personnel who could be utilised for building up an internal financial organisation within each administrative ministry.

The Attached Financial Adviser scheme referred to in the Finance Ministry's reply to the Public Accounts Committee, was introduced in early 1957 by the then Finance Minister T. T. Krishnamachari.<sup>12</sup> Krishnamachari was critical of the then existing arrangements; and he unfolded his thinking on the subject in a meeting of secretaries and senior officials held in January 1957. He was of the opinion that the Financial Adviser was to be a functionary who enjoyed the confidence of the Finance Ministry and therefore, the question of the administrative ministry choosing such an officer did not arise. Under the Scheme introduced by him, an officer of the rank of a Joint Secretary was accredited to one or a group of ministries to tender financial advice. He was assisted by Attached Financial Advisers of the rank of either Under Secretary or Deputy Secretary, who were located as close as possible to office of the secretary of the administrative ministry to which they were attached. As mentioned earlier, the Attached Financial Adviser was to be readily available to the administrative ministry for financial advice on all proposals emanating from that ministry. However, where necessary, the A.F.A. could seek orders from the Joint Secretary (Financial Adviser) who was in overall charge of the function of financial advice.

With a view to avoiding waste of time and labour in the preparation of schemes, the administrative ministries were asked to acquaint the Attached Financial Adviser with the various aspects of an expenditure proposal right from the earliest stage and to have adequate consultations with him before a scheme

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<sup>12</sup>T. T. Krishnamachari had assumed charge as Union Finance Minister in October 1956.

was formulated.

The Attached Financial Adviser, though borne on the strength of the Ministry of Finance, was directed to work as if he was an officer of the administrative ministry. He was to render all assistance to the secretary of the administrative ministry in the preparation of budget estimates.

The Attached Financial Adviser scheme, however, failed to solve the problem of providing a suitable machinery to the administrative ministries for obtaining expert financial advice in the transaction of their business. The scheme was criticised from many quarters. Shri A.K. Chanda, while commenting on the scheme in his book entitled "Indian Administration" observed as follows :

"It is difficult to comprehend how this plan can give a greater sense of financial responsibility to the Ministries. The mere use of the magic word 'attached' has brought about neither a change in the pattern of control nor a psychological transformation in the finance or the administrative officers. Previously, it was the 'accredited' Joint Secretary (level of third Secretary in the Treasury) who was required to discuss with a Departmental Secretary broad issues of the department's plan and programmes and to settle points in dispute. Not only is the reduction in the rank of Financial Adviser available to a Secretary derogatory to his position as Secretary to the Government but it is also likely to slow down departmental business and leave many issues unsettled for further discussion with the Ministry of Finance at a higher level. The transfer of 'functional' control of the Budget Branch to the Attached Financial Adviser is also a retrograde step, since it limits further the authority of the departmental Secretary. It is unfortunate, therefore, that the prestige of the Ministry of Finance has been allowed to come repeatedly in the way of rationalising secretariat procedures. It is axiomatic that, if control is vested in the administrative ministry as elsewhere, not only will there be a considerable saving of manpower, a consideration important in itself, but the disposal of business and the execution of projects will also be speeded up, a consideration far more important in the planned development of the country's economic and

industrial strength".<sup>13</sup>

The Attached Financial Adviser Scheme did not continue for long. The experience gathered from the operations of the system, however, suggested the necessity of entrusting financial responsibility in day-to-day matters to the administrative ministries and providing them with the assistance of proper personnel equipped with adequate financial competence. The Public Accounts Committee of the Second Lok Sabha in its *Eighth Report on Budget Estimates and Financial Control* dwelt upon the subject of financial reforms and picked up the line of suggestions made earlier by A. K. Chanda in his capacity as the Comptroller and Auditor General of India. The Committee recommended that the control exercised by the Ministry of Finance should, as far as possible, be restricted to matters of policy; and the detailed review of the proposals at the pre-budget stage and the post-budget implementation and control of programmes and activities should be entrusted to the administrative ministries. In short, the Public Accounts Committee reviewed the whole system of budgeting and financial control and recommended the adoption of Chanda's scheme with some necessary modifications.

Based on the suggestions of A. K. Chanda and as a sequel to the recommendations of the Public Accounts Committee, the Government of India introduced a scheme of delegation of financial powers which could be considered an important break through in the history of budgeting and financial control. The new arrangements made effective from August 20, 1958 covered, *inter alia*, the system of financial advice. Under the new scheme, the administrative ministries were given finance officers of appropriate status, designated as Financial Adviser, Deputy Financial Adviser and Assistant Financial Adviser, to function as their Internal Financial Advisers. These financial advisers formed part of the administrative ministry to which they were attached and were paid from the budget grant of that ministry. They were required to help and advise the administrative ministry in its budgetary, financial and related work and to assist it in a proper exercise

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<sup>13</sup>Asok Chanda, *Indian Administration*, George Allen & Unwin, London, 1967, pp. 229-230.

of control over expenditure against appropriations. The Internal Financial Adviser was kept subordinate to the secretary of the administrative ministry. But it was provided that the cases where the advice of the Internal Financial Adviser was not accepted should be brought to the notice of the Ministry of Finance and the Comptroller and Auditor General of India. The financial reforms introduced in August 1958 also provided for the delegation of enhanced powers to the administrative ministries. It was, however, made mandatory on the administrative ministries to consult the Internal Financial Adviser in the exercise of their newly delegated powers. But they could exercise the powers delegated to them before the year 1958 without consulting the Internal Financial Adviser.

Before the scheme of 1958 had been worked over a sufficient length of time as to receive a fair trial, proposals came to be mooted for merging the functions of the internal and the external financial advisers in the same official. It happened in February 1959 hardly six months after the earlier scheme was put into operation. The shortage of trained finance personnel was to a large extent responsible for prompting such a move. Also, the absence of a clear distinction between the responsibilities of internal and external financial advisers led to such a move for merger finding acceptance amongst some of the administrative ministries. It was considered that financial scrutiny at two stages, first by the Internal Financial Adviser and then in the Ministry of Finance involved avoidable delay.

Therefore, in less than a year after the introduction of the scheme, the system of separate Internal Financial Adviser was retained only in a few administrative ministries, namely, Home Affairs, Labour and Employment, Transport, Irrigation and Power, and Iron and Steel. In the case of most of the administrative ministries a combined financial set-up was introduced under which the officers of the Finance Ministry functioned, in addition, as financial advisers to these ministries. Such ministries, therefore, did not have to position internal financial advisers. The Ministry of Finance also decided, in 1959, to bring over the officers and staff of the finance branches of these ministries to the Department of Expenditure to give full effect to the scheme of combined financial advice. Such a measure was calculated to enable an economical

utilisation of the personnel available for financial advice work. Exception was, however, made in the case of Ministries of Irrigation and Power, Home Affairs, and Labour and Employment, in whose cases both the internal and the external financial advisers continued to function. The Ministry of Irrigation and Power considered the presence with it of an Internal Financial Adviser as necessary to enable easy availability of expert financial advice in the formulation and execution of the various schemes and multipurpose projects it was concerned with. The Ministries of Home Affairs and Labour and Employment also preferred to continue with the scheme of Internal Financial Adviser. They had already positioned for this purpose officers of the rank of Deputy Secretary who were also assigned the function of looking after the work of Finance and Budget sections of the ministries.

As a result of a review of the earlier reforms and also a greater awareness of the problems that confronted the implementation of the Five Year Plans, another scheme for financial reforms was introduced in September 1961, on an experimental basis, in three administrative ministries and one department. This scheme which was introduced for a period of six months only, was later extended to all the ministries from June 1, 1962. The new scheme envisaged the financial adviser as an integral part of the administrative ministry. He was to be responsible for overseeing the preparation of the budget estimates and for ensuring that in the process of incurring expenditure the administrative ministry observed the financial principles and procedures. He was also to watch the progress of expenditure to guard against any excess over the Budget allotment. For carrying out such a function, he was to make necessary accounting arrangements within the administrative ministry. In addition, he was required to tone up financial administration of the administrative ministry by instituting the necessary system of reporting and test checks. He was considered to be an important link between the administrative ministry and the Ministry of Finance to establish and maintain the necessary liaison with the latter.

Under the scheme of 1962, it had been provided that the secretary of the administrative ministry would be the final authority to decide each issue after obtaining the advice of the financial adviser. Whereas under the scheme of 1958,

instances of disagreement between the secretary of the administrative ministry and the financial adviser were to be conveyed to the Ministry of Finance and the Comptroller and Auditor General of India, the scheme of 1962 dispensed away with such conditions and made the administrative secretary as the actual authority in dealing with matters both of administrative and financial nature.

Another scheme delegating enhanced financial powers to the administrative ministries was introduced by the Ministry of Finance on October 18, 1968.<sup>14</sup> The scheme lays stress on the requirement that competent financial advice should be available internally within the administrative ministries. It has disfavoured the system of Finance Ministry officials being available for consultation to the administrative ministries in their delegated field. It has, therefore, prescribed a time limit for stopping such a practice and has exhorted those of the administrative ministries which do not, at present, have their own internal financial advisers to organise their internal financial cells.<sup>15</sup> The scheme envisages the Internal Financial Adviser to be in overall charge of the internal finance section as well as of Budget and Accounts section. The scheme of 1968 further specifies the functions of an Internal Financial Adviser as follows :

- “(1) to ensure that the schedule for preparation of budget is adhered to by the ministry and the budget is drawn up according to the instructions issued by Finance Ministry from time to time;
- (2) to scrutinise budget proposals thoroughly before sending them to Ministry of Finance;
- (3) to see that complete departmental accounts are maintained in accordance with the requirements under the G.F.Rs. It should, in particular, be ensured that the ministry not only maintains accounts of expenditure against the Grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred

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<sup>14</sup>Government of India, Ministry of Finance (Department of Expenditure), Office Memorandum No. F. 10(3)—E(Coord.)/67 dated the 18th October, 1968.

<sup>15</sup>The scheme stipulated that officials of the Finance Ministry would not be available for consultation to the administrative ministries in their delegated field beyond April 1, 1969.



- by the subordinate offices so that the ministry has a complete month to month picture of the entire expenditure falling within its jurisdiction;
- (4) to watch and review the progress of expenditure against sanctioned grants through maintenance of necessary control Registers and to issue timely warnings to controlling authorities where the progress of expenditure is not even;
  - (5) to ensure the proper maintenance of the Register of Liabilities and commitments as required under the G.F.Rs. to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings;
  - (6) to screen the proposals for supplementary demands for grants;
  - (7) to formulate the foreign exchange budget of the ministry and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic Affairs from time to time;
  - (8) to advise the administrative ministry on all matters falling within the field of delegated powers. This includes all powers other than those devolving on a ministry in its capacity as head of office. It has to be ensured by I.F.A. that the sanctions issued by administrative ministry in exercise of delegated powers clearly indicated that they issue after consultation with I.F.A.;
  - (9) to identify, in particular, specific savings in cases of creation of posts and to maintain a register for this purpose;
  - (10) to scrutinise proposals for re-delegation of powers to subordinate authorities;
  - (11) to keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stage;
  - (12) to associate himself with the evaluation of progress/performance in the case of projects and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation;

- (13) to watch the settlement of audit objections, inspection reports, draft audit paras, etc.;
- (14) to ensure prompt action on Audit Reports and Appropriation Accounts, Reports of P.A.C., Estimates Committee and Committee on Public Undertakings;
- (15) to screen all expenditure proposals requiring to be referred to Finance Ministry for concurrence or comments;
- (16) to ensure regular and timely submission to Finance Ministry of quarterly staff statements and other reports and returns required by Finance.

It has further been provided under the scheme that the Internal Financial Adviser should be consulted in all cases before the exercise of delegated powers. It is, however, open to the administrative secretary to over-rule the advice tendered by the Internal Financial Adviser by an order in writing. It is made clear that full responsibility for the decisions taken in exercise of the delegated powers rests on the administrative ministry irrespective of whether a decision is in accordance with the advice given by the Internal Financial Adviser or not.

Under the scheme, the ministries have been given complete freedom to appoint Internal Financial Advisers of their choice. They may, however, seek help of the Finance Ministry in this matter if they so wish. The scheme states that the officers selected for the position of Internal Financial Adviser should undergo a short course of training in the Ministry of Finance. This may not be necessary for those experienced officers who are drawn for these posts from the Finance Ministry itself. It has also been provided under the scheme that where, in the opinion of ministries, an Internal Financial Adviser can not be provided with full-time work of the type delineated in the scheme, he may be assigned additional duties within the ministry. In the alternative, the scheme provides that one or more Ministries could be suitably grouped to be served by a common Internal Financial Adviser.

The question of the role and functions of financial adviser has recently been deliberated upon by the Administrative Reforms Commission. To assist the Commission, the subject had also been thoroughly examined by some of the expert bodies constituted by the Commission, namely, Study Team on Financial

Administration, Study Team on Machinery of the Government of India and its Procedures of Work, and Working Group on Financial Rules.

The Study Team on Financial Administration recommended the appointment of a senior officer with adequate background and training as financial adviser to assist and advise the secretary of the administrative ministry in the exercise of the financial powers delegated to the ministry. The administrative secretary, it thought, should be vested with powers to over-rule the financial adviser without having to report the fact to any outside authority; and the financial adviser should function under his administrative control. He should be responsible for organising and looking after the work of the Finance and Budget Cells of the ministry. The Finance branches of the administrative ministries should be suitably strengthened, and staffed with qualified and well-trained personnel. The Study Team envisaged the financial adviser as amongst the most important officers of the administrative ministry. In addition to organising an effective financial management within the ministry he was to be responsible for establishing and maintaining the necessary liaison with the Ministry of Finance.

The Study Team, while envisaging the financial adviser as an integral part of the administrative ministry, recommended his appointment to be made with the concurrence of the Ministry of Finance. They felt that the administrative secretary should be competent to make an annual assessment of the performance of the financial adviser, as he does in the case of other officers of the ministry. However, the Study Team thought 'that in order to ensure greater objectivity and better assessment of the professional and technical aspects of his work', an additional report on the work of the financial adviser should be made by the Secretary in the Department of Expenditure, to form part of his (F.A.) annual confidential report. According to the Study Team, the positioning of an Internal Financial Adviser should be obligatory on each administrative ministry. However, if the workload in a ministry was not sufficient for the financial adviser to be occupied whole-time, the Government could entrust him with the work of more than one administrative ministry.

The Study Team was of the view that it would be of advantage if a uniform set of rules were framed to govern the

procedures of the administrative ministries for consultation with the Financial Adviser. It also emphasised the need for the administrative ministries exercising fully the powers delegated to them. It suggested that the Ministry of Finance should refuse to offer advice on matters which fell within the competence of the administrative ministries. Such a step would ensure taking decisions on their own by the administrative ministries in all matters falling within their field of responsibility.

The Study Team recommended that financial advisers should be chosen from amongst those having background of administrative experience and they should at an appropriate stage be given adequate orientation for their job. It also advocates the principle of periodical inter-change of financial advisers with officers of equivalent level in the administrative departments. This should, the Study Team thought, enrich the experience of both the categories of officers and ensure sounder finance and effective administration.

The Administrative Reforms Commission in its report on 'Finance, Accounts and Audit', submitted to the Government in January 1968, agreed, by and large, with the suggestions of its Study Team on Financial Administration regarding the functions and role of financial adviser. The Commission incorporated in its report the following recommendations for the consideration of the Government.

- “(1) It should be obligatory for each ministry to have a whole-time Internal Financial Adviser of adequate seniority and rank. This officer should be placed in charge of the Finance and Budget Cell of the Ministry and should be responsible for the financial management and control within the ministry's field of responsibility. He should not be entrusted with any other work of the administrative ministry like personnel work of office management, etc. It should be open to the Government to entrust one officer with the work relating to more than one ministry/department;
- (2) The procedure for consultation with the Financial Adviser and the type of cases in which he would be consulted should not be left to the discretion of individual ministry. A set of model rules should be

framed for the guidance of administrative ministries in this matter;

- (3) The Finance and Accounts Branches of the administrative ministries should be suitably strengthened wherever necessary and staffed with qualified and well trained personnel;
- (4) The Finance Ministry should help the administrative ministries to organise well-equipped Internal Finance Branches. For this purpose, it will be necessary to  
(i) ensure proper training of the junior officers, and  
(ii) provide for officers in the middle levels suitable opportunities to acquire varied experience and knowledge of public administration;
- (5) The Financial Adviser should bring to his assignment a background of field experience and at an appropriate stage he should be given such orientation as to equip him for the role and functions of Financial Adviser. The officers without a similar background should be provided this experience as early as possible in their careers as Financial Adviser;
- (6) There should be a provision for periodical inter-change between the officers of the Finance Branches and other branches of administration."

The Commission's Study Team on Machinery of the Government of India and its Procedures of Work also dwelt upon a similar problem in the context of Government's organisational set-up. According to this Study Team, one of the important reasons for too frequent a reference to the Ministry of Finance in the field of financial management is the absence of adequate intra-ministry arrangements for financial advice and control. Existing financial delegations with the ministries would operate more efficiently and further delegations to them might become possible if this gap were to be made good. The Study Team, therefore, recommended that there should be a chief finance officer in every ministry to look after all aspects of the ministry's financial management. This office should be headed by a Chief Finance Officer and be responsible for : (i) overall office management for the ministry, (ii) organisation and methods, (iii) parliamentary work concerning the ministry, and (iv) co-ordination in administrative matters. By

assigning these functions to the chief finance office, the attempt of the Study Team was to lodge in the same office responsibilities for ensuring both economy and efficiency in the transaction of the work of the ministry. To ensure that the advice tendered by the Chief Finance Officer was independent and mature and also carried weight with the administrative officers concerned the Study Team recommended that his status should be that of a senior officer of the rank equivalent to that of a Joint Secretary. He should be a whole-time functionary of the ministry. In the case of small ministries, however, he could be assigned the additional duties of functioning as a chief personnel officer.

The Working Group on Financial Rules was constituted by the Commission to examine in detail the rules and regulations which embody delegations of a financial nature. In this context, it also considered the position of the financial adviser. In its report submitted in December 1968, the Working Group included a set of rules to be called "The Government of India (Consultation with Financial Adviser) Rules" and suggested their circulation by the Government to the various ministries to provide them with guidelines in their dealings with the Financial Adviser. This set of model rules has been commended by the Administrative Reforms Commission for consideration by the Government. The rules as proposed by the Working Group are given in Appendix II.

With the enhancement of powers of the administrative ministries over larger areas of responsibilities, the availability of expert advice to them on diverse and sometimes complex financial matters is of utmost importance. The need for developing cost consciousness within the spending departments and agencies has been repeatedly emphasised. Developing financial competence within the administrative ministries and taking up of measures to tone up and strengthen their financial management has, therefore, become imperative to enable the ministries to discharge their functions in an efficient and economical manner. It has been considered that the posting of a financial adviser in an administrative ministry, (making his expertise available to it), should prove of great help in solving many a financial problem arising in the day-to-day working of the ministry.

The need for providing the administrative ministries with

the services of an expert to tender financial advice and to supervise their finance, budget and accounts work assumes added significance in the context of a scheme of performance budgeting which the Government have decided to introduce. There cannot be any gainsaying the fact that the Budget and Accounts Cells in a ministry are to constitute the focal agency for working the technique of performance budgeting. These cells are to provide the necessary link for maintaining adequate liaison with the Ministry of Finance, and would be responsible for ensuring that the various documents and reports required by the Ministry of Finance are supplied in time. The quality and adequacy of the reports prepared by these cells would be an important factor in facilitating a meaningful and effective Parliamentary financial control.

The increasing importance which the Budget and Accounts Cells are to assume under a scheme of performance budgeting can be appreciated from the nature of functions they would be called upon to discharge. In addition to their traditional role of assisting the ministry in watching the progress of expenditure against the appropriation, they would be assigned the work of implementing the various facets of the technique of performance budgeting, namely, preparation of the activity budget, providing the necessary accounts support, consolidating the various information channels into a reporting system to facilitate effective and sound decision-making at higher levels and assisting the top management in evaluation and review of performance at various levels.

It is generally agreed that our present accounting system is not adequate to serve the needs of the administrative ministries especially in correlating financial accounts with physical accounts. Also, the existing reporting system based on the present accounting arrangements does not, by and large, provide well-organised information regarding physical achievement of planned targets in relation to the cost incurred. The present accounting and reporting system, though serving the purposes of appropriation control, badly lacks as a tool of management. It would, therefore, be an important function of the Budget and Accounts Cell in a ministry to devise accounting and reporting methods and procedures in order to ensure a sound financial management and an effective working of the system of

performance budgeting. In view of all this and the complex and extended responsibilities which have devolved on the administrative ministries and its officers in the wake of developmental plans, the importance of positioning a financial adviser in each administrative ministry to assist it in financial matters and to supervise the functioning of its Budget and Accounts Cells can be hardly over-emphasised.

It is, however, not understood as to why the Delegation Scheme of 1968 should treat an Internal Financial Adviser as differently from any other Joint Secretary in the administrative ministry. The role of the Financial Adviser is to advise and assist the administrative secretary in financial matters as is done by the other Joint Secretaries in other matters. It should be left to the administrative secretary, who is ultimately to assume full responsibility for a decision taken, to utilise the services of and take work from the Financial Adviser in whatever way he considers best. What use is made of the presence of a Financial Adviser in the Ministry should be left to be decided ultimately by the personal equation which comes to be established between the administrative secretary and the Financial Adviser and the extent of confidence which the former reposes in the latter. The administrative secretary need not be under any compulsion to consult the Financial Adviser in all cases of the exercise of delegated powers. If he has strong reasons to do otherwise, he may have the freedom to bypass the Financial Adviser and take the decision all by himself. It is enough that he assumes full responsibility for his actions and is accountable for the results. We may add here that the nature of expertise of the Financial Adviser being such that the administrative secretary would be very much inclined to consult him in all matters having financial bearing. However, we are not in favour of providing any restrictions in the delegation scheme whereby an administrative secretary is bound to consult the Financial Adviser while exercising the delegated powers and has to record in writing his reasons for over-ruling the Financial Adviser in any particular case.

We are of the opinion that too rigid walls should not be erected around the financial adviser and the function of financial advice. The endeavour of every secretary should be to train each of the officers as his own financial adviser so as to become adequately



equipped to dispose of a good many cases of financial implications where he feels confident about his knowledge of rules and is prepared to take full responsibility.<sup>16</sup> It is only to deal with difficult and complicated financial matters that a hierarchy of finance officers headed by the Financial Adviser and carved out of the existing administrative cadre should exist to tender expert advice when called upon. Such a hierarchy of finance officers should be subordinate to and function under the administrative control of the secretary of the administrative ministry. Some common functions of the administrative ministry like managing the budget and accounts work and preparation of budget estimates may be put under the charge of these finance officers. However, the primary responsibility for effective financial control should remain that of the administrative and executive officers functioning at various levels. Such a course would considerably reduce the workload on the staff of the organisation of the Financial Adviser and leave them with enough time to attend to those important and complex financial matters which the administrative and executive officers could not dispose of by themselves.

The Financial Adviser being amongst the most important officers of the ministry, the administrative secretary should be allowed some choice in his selection. Once appointed, the Financial Adviser should form an integral part of the administrative ministry assisting the secretary in the same way as any other Joint Secretary in the ministry would do. However, if the position of a Financial Adviser is made similar to that of any other Joint Secretary in the administrative ministry, it may not be possible to appoint one financial adviser to work for a group of ministries/departments as is envisaged in the Delegation

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<sup>16</sup>A disturbing feature has been observed in the working of the schemes of delegation of enhanced financial powers to the administrative ministries especially after the induction of Internal Financial Advisers with the scheme of June 1962. The dealing administrative officers in the ministry often do not fully scrutinise the expenditure proposals from financial angle, leaving it for the Financial Adviser to carry out the necessary examination of the proposals. Such excessive dependence on the financial adviser retards the development of financial capabilities of the administrative officers and also increases the work of the financial adviser by engaging him on such details as could with small effort be attended to by the administrative sections concerned.

Scheme of October 1968. Nevertheless, if the workload in administrative ministry pertaining to financial advisory role and connected matters does not justify having a functionary whole-time on the job, the administrative secretary should have powers to assign to the Financial Adviser any additional duties relating to other work of the ministry.

There is a viewpoint held by some that financial advice tendered by a person subordinate to the administrative secretary would not be independent and objective. The Financial Adviser in such a situation, it is contended, would have to toe the secretary on whose confidential report his future prospects would depend. We are, however, of the considered opinion that there need not be any fears entertained regarding the quality of financial advice to be tendered by the Financial Adviser if he were to be an integral part of the ministry functioning under the administrative control of the secretary. The Administrative Secretary, the Financial Adviser, the Joint Secretaries and other officers in the hierarchy are all limbs of the same government machinery and are supposed to consider matters in a purely objective and unbiased manner with due regard to the policies and decisions of government and to give honest and impartial advice to the authorities above them. There is no reason why a particular limb, namely, the Financial Adviser should not function objectively and discharge his duties effectively as is expected of any other officer in the organisation. The fact of the Financial Adviser being placed completely under the control of the administrative secretary should not deter him from giving his independent and honest advice on financial matters as it is not supposed to happen in the case of any other conscientious Joint Secretary working under the same administrative secretary. It is rather strongly felt that the advice from a Financial Adviser who is an integral part of the administrative ministry should be better informed since he will be closely associated with the ministry's work, possessing intimate knowledge of its programmes and projects. Such an advice should also be free and uninhibited as questions of prestige would not be involved when the person rendering the advice is from within the administrative ministry itself.

The objectivity and independence of the Internal Financial Adviser can to a large extent be ensured by providing for a suitable status for him which should not be less than that of a

Joint Secretary. Also, proper selection and suitable background of the financial adviser can prove of great asset in his discharging his functions efficiently and objectively. In addition to possessing sound knowledge of various aspects of financial management, a financial adviser should also have some experience of administrative work. It may be stated that experience circumscribed to one particular branch of work only is likely to result in narrowness of mind. Interchange of financial advisers with administrative officers of equivalent rank in Government, at suitable intervals, would provide those functioning as financial advisers with the necessary perspective to appreciate in an understanding manner the difficulties of officers in-charge of administering and executing programmes. It should promote the spirit of mutual adjustment between the financial adviser and other officers in the ministry. It would also, in the process, train up a large number of senior officers for taking up the functions of financial adviser.

In conclusion, we may state that with the extended responsibilities of the administrative ministries and the delegation of enhanced financial powers to them, the availability of the expertise of a financial adviser functioning as an integral part of the administrative ministry would prove of great help to the ministry in the transaction of its financial business. It should, however, be left to the mature judgment of the administrative secretary as to how best he would make use of the services of the financial adviser. In other words, the financial adviser should function under the full control of the administrative secretary. Such an arrangement should not give rise to any misconceptions regarding the position and role of the administrative secretary, as he must remain fully responsible for the efficient and economical administration of the programmes entrusted to him and be accountable for results.

## APPENDICES



## APPENDIX I

No. F. 10(3)—E(Coord)/67  
Government of India  
Ministry of Finance  
(Department of Expenditure)

New Delhi, the 18th October, 1968

### OFFICE MEMORANDUM

Subject : Arrangements for budgeting and financial control  
and delegation of financial powers to Ministries

In continuation of the Department of Expenditure Office Memorandum No. 19 (50)—E (Coord) / 65, dated 15th March, 1966, on the above subject, further thought has been given to the question of making larger delegation of the financial powers to Ministries, ensuring at the same time that the delegated powers are effectively utilised. The President has now been pleased to decide that, in supersession of the provisions of the O. M. of 15th March, 1966, the procedures and enhanced delegation of financial powers, as indicated in the annexure to this O. M. will come into operation with immediate effect. Where, however, the setting up of the machinery envisaged in the new scheme, as for example, the appointment of Internal Financial Adviser, involves some delay, these orders may be given effect from a suitable later date but in no case, should such date be later than 1st April, 1969.

2. The basis of the arrangements envisaged in the scheme of enhanced delegation of powers is that the Finance Ministry will exercise its control mainly by a proper scrutiny of the schemes, etc. before inclusion in the budget and through an adequate system of reporting and test checks. In the absence of an adequate pre-budget scrutiny of the requirements of Ministries for want of sufficient supporting details, it is to be understood that the provision made in the budget will not be available for expenditure by the Ministries without consulting Finance and to that extent

the Ministries will not be able to make use of their delegated powers. Finance Ministry would like such a situation to be avoided and would urge that the Ministries should ensure as far as possible that the schemes, etc., drawn up by them for inclusion in the budget are supported by full details. It is most important that the time-schedule for the formulation of budget proposals should be closely adhered to in order to allow sufficient time for proper scrutiny by the Finance Ministry and any subsequent discussions that may become necessary, on the basis of such scrutiny. It is the intention that as far as possible any substantial reduction in the outlays proposed by the Ministries will not be made by the Finance Ministry without thorough discussions with the concerned administrative Ministry at sufficiently high levels. Such discussions will be possible only if the time-schedule is scrupulously observed.

3. It will be observed that under the new scheme Ministries will have full powers of reappropriation within a Grant provided there is no diversion of funds intended for plan schemes to non-plan activities and there is no augmentation of the total provision made for administrative expenses (*i.e.*, pay, allowances, and other charges) under a particular Grant. Ministries would thus be free to reappropriate funds between the Plan schemes covered by a Grant, but in doing so, the consequences of such adjustments on the overall Plan pattern should be carefully considered and it should be ensured that Plan priorities are not upset. The responsibility for the consequences arising out of such reappropriation will be wholly that of the Ministries.

4. An important feature of the present scheme is that competent financial advice should be available internally within the administrative Ministries. It is essential that this aspect of the scheme should be given proper attention. At present a few Ministries have got Internal Financial Advisers and in other cases officials of the Finance Ministry are available for consultation even in the delegated field. Subject to the time limit mentioned in para 1, officials of the Finance Ministry will not in future be available for consultation within the delegated field and consequently Ministries which do not have their own Internal Financial Advisers at present should organise their Internal Financial Cells in the manner envisaged in the annexure. The scheme provides for the grouping of Ministries/Departments

to be served by a common Internal Financial Adviser in certain circumstances should take up the matter with the Finance Ministry.

Ministries are free to appoint I. F. As. of their choice but, where they wish to be guided by the advice of the Finance Ministry in the matter of selection of Internal Financial Advisers, Finance Ministry will be ready to help. In order, however, that the officers selected by the Ministries may in appropriate cases be given necessary training as envisaged in the scheme, the Ministries are requested to intimate to the Finance Ministry the details of the selected officers, indicating especially their finance background, to enable them to draw up the necessary arrangements.

As some of the functions indicated in Appendix I to the Annexure would already be entrusted to some officers of the Administrative Ministries, a review of the existing position may be carried out, so that additional hands to function as Internal Financial Advisers are appointed only where strictly necessary.

The scheme provides that the Internal Financial Adviser should be consulted in all cases before the exercise of delegated powers although it is open to the administrative Secretary to overrule his advice by an order in writing. It should be clearly understood that the full responsibility for a decision taken in exercise of the delegated powers rests on the administrative Ministry irrespective of whether it is in accordance with the Internal Financial Adviser's Advice or not. It is also important that in referring cases to the Finance Ministry in future the clear distinction between the delegated field and other field should be borne in mind.

5. Under the new scheme, Ministries are required to strengthen their internal Work Study Units for the efficient discharge of their functions, as indicated in the Annexure. The activities of these Units will be coordinated with those of the Staff Inspection Unit of the Ministry of Finance, who will also periodically exercise functional test checks over their work. It will be necessary for the Ministries to man their internal Work Study Units with properly trained staff. The advice of Staff Inspection Unit will be available for this purpose. Ministries are also requested to provide the necessary facilities to Staff Inspection Unit for the efficient functioning of the arrangements



envisaged in the Annexure.

6. As already stated, with the enhanced delegation of powers to the Ministries, the Finance Ministry's control will be exercised through an adequate system of reporting and test checks. It is essential, therefore, that the returns and copies of sanctions as provided for in para V(a) and (b) of the Annexure should be promptly sent in the Ministry of Finance. Without these, it may be difficult to sustain the scheme of delegation of financial powers to Ministries.

7. These orders do not apply to the Ministry of Railways, Department of Atomic Energy and the Ministry of Defence in regard to expenditure met from Defence Service Estimates, as they are governed by separate arrangements.

Sd/-

(T. P. Singh)

*Secretary to the Government of India*

To

All Ministries/Departments of Government of India.

No. F. 10(3)—E(Coord)/67

- (1) Copy, with 140 copies forwarded to Comptroller and Auditor General of India for information and circulation to all Accountants General.
- (2) Copy forwarded also to :
  - (i) Department of Economic Affairs (Budget Division).
  - (ii) Department of Administrative Reforms.
  - (iii) All Heads of Divisions and all officers and Branches in Department of Expenditure.
  - (iv) Defence Division.

Sd/-

(N. N. K. Nair)

*Deputy Secretary to Government of India*

## ANNEXURE TO APPENDIX I

### I. BUDGET

The preparation of budget proposals in sufficient detail and their proper pre-budget scrutiny by the Finance Ministry is an essential feature of the scheme. Ministries are required to ensure that the time-schedules drawn up by them in consultation with their F.As. for the formulation of the budget proposals, in regard to non-routine and routine portions of their budget estimates, are strictly adhered to and that the budget proposals reach the Finance Ministry in time in sufficient detail.

Where in exceptional cases lump provisions are made in the budget for certain urgent schemes which may not be ready in sufficient detail at the pre-budget stage, they should be based on realistic assessment of the expenditure likely to be incurred during the year and they should not be merely token provisions. In cases where such lump provisions are made for Plan or non-Plan schemes, the amounts will not be available to the Ministries for the issue of any sanction including that of creation of posts under their powers until full details and justification of the schemes have been furnished to the Finance Ministry and are accepted by them. To ensure that expenditure sanctions against such lump provisions are not erroneously issued and to keep a watch over the time submission of detailed proposals to Finance Ministry, each Ministry should, soon after finalisation of its Budget Estimates, have a list compiled of such lump sum budget provisions and circulated to the concerned officers. A copy thereof should also be given to the Associate Financial Adviser.

### II. INTERNAL FINANCE ARRANGEMENTS

For the proper exercise of the delegated powers and to avoid unnecessary references to the Finance Ministry, it will be incumbent on each Ministry to have a whole-time Internal Financial Adviser whose functions will be as indicated in Appendix I to the Annexure. Where in the opinion of Ministries/Departments, an I.F.A. will not have full-time work on the above basis, he may be allowed additional duties within the Ministry

provided such an arrangement does not interfere with the free performance of his functions as I.F.A. Where, however, this is not possible, one or more Ministries will be suitably grouped and served by a common I.F.A.

The Ministries will be free to appoint I.F.As. of their choice but the selected officers will be required to undergo a short course of training in the Finance Ministry except in cases where an experienced officer is drawn from the Finance Ministry itself.

As it will now be compulsory for the Ministries to consult their I.F.As. in the field of delegated financial powers, the Ministries should indicate in the sanctions issued by them in the exercise of the delegated powers that they have been issued after such consultation.

Steps should also be taken, where necessary, to organise the Finance, Budget and Accounts Cells suitably with trained and qualified staff to facilitate the efficient functioning of these Cells under the I.F.A. The Ministry of Finance would be prepared to help in setting up/strengthening of these Cells.

### III. DELEGATION OF FINANCIAL POWERS

#### (i) *Powers of Re-appropriation*

(a) Subject to the general restrictions contained in D.F.P. Rules, and subject also to the instructions issued by the Finance Ministry in connection with expenditure on New Service/New Instrument of Service, Ministries will have full powers of re-appropriation within a Grant subject to the condition that there should be no diversion of funds intended for Plan scheme to non-Plan activities, both under Revenue Heads and under Capital Heads, without the concurrence of the Finance Ministry. The existing restrictions on the powers of Ministries for re-appropriation of funds within a scheme and between schemes will be removed. Clauses (c) and (d) of Rule 8(6) and Rule 8(7) including Government of India decisions thereunder in D.F.P. Rules, 1958, will accordingly stand deleted.

*Note :* Copies of re-appropriation orders issued by the Ministries, affecting the budget provisions relating to plan schemes should be endorsed by them to the Planning Commission also.

(b) These enhanced powers of re-appropriation would apply

also to the provisions for loans in respect of Central schemes placed at the disposal of a Ministry/Department.

(c) The existing restriction regarding re-appropriation of funds involving augmentation of the total provision made under a Grant for administrative costs (*viz.*, pay, allowances and other charges, *vide* sub-Rule 8(6) (b) of D.F.P. Rules as modified by O. M. of 1st June, 1962) will continue to be operative.

(d) It will, however, not be permissible for the Ministries to allow re-appropriation of funds from provision made for any specified new item in the budget for any other purpose, without the prior concurrence of the Ministry of Finance.

(e) Clause (b) of Rule 8(5) of D.F.P. Rules/provides that the amount appropriated to any work shall not, except with the previous consent of the Finance Ministry, exceed the amount approved or sanctioned for that work by a sum greater than the excess which may be authorised under the rules referred to in clause (a) of Rule 8(5). In cases where the excess over the authorised limits is agreed to by the Finance Ministry, the Ministries will be competent to incur such expenditure by re-appropriation, if savings are available elsewhere under the appropriate Works Heads.

(f) The restriction in Rule 8(5) (c) will apply only to the provision for "Major Works" under a Capital Grant. Where such a provision is made under Revenue Budget, Ministries will have the power to sanction re-appropriation of funds between the allied Primary Units 'Major Works', 'Minor Works', 'Repairs and Maintenance' and 'Tools and Plant', included within the same Grant. No such re-appropriation can, however, be made from or to the "Suspense" head relating to a work.

## (ii) *Creation of Posts*

(1) The existing powers of Ministries for creation of permanent and temporary posts will continue unchanged except as stated in (2) below. These delegated powers will not, however, be utilised by Ministries for the creation of posts in Central Government organisations located outside India.

(2) In regard to posts required for Public Sector Undertakings the Ministries will have power to create posts carrying pay scales the maximum of which does not exceed Rs. 2,750 per

mensem as against the existing limit of Rs. 2,250 p.m.

(3) The exercise of the existing delegated powers for creation of posts by Ministries will be subject to the observance of the following conditions, apart from those laid down in the D.F.P. Rules :

- (a) The powers do not cover upgrading of scales of pay of existing posts *vide* the Deptt. of Expenditure O. M. No. F. 5(1)—E. III(A)/65, dated 26th February, 1965.
- (b) For creation of permanent, posts which it is intended to continue on a long term basis, it is not sufficient if savings are available in a particular year alone, and it has to be ensured that long term savings in the establishment budget are available for the purpose.
- (c) In all cases of creation of posts for which specific provision has not been made in the approved budget, necessary savings should be located and specified before sanction is issued ; it will be irregular to create posts on the basis of a mere expectation that savings under the appropriate head are likely to be available. It will, however, be in order if new posts are created in lieu of some others for which provision is included in the approved Budget and a decision to this effect is recorded. It will not be correct for Ministries to create posts involving recurring commitments for future years unless corresponding savings can be clearly located for those years also.
- (d) The Internal Work Study Units, which are an integral part of the arrangement, should be consulted in all cases where additional posts are to be created under the delegated powers due to increase in work or re-organisation of staff.
- (e) The delegated powers for creation of posts will not be utilised so as to augment strengths of particular categories as recommended under the S.I.U.'s report, for at least a period of 6 months after action on the report has been completed.
- (f) Posts should not be created in excess of standard scales where laid down, *e.g.*, in respect of Class IV posts, stenographers, personal staff of senior officers and Ministers, etc.

- (g) Retrospective creation of posts should be regulated by O. M. No. F. 1(34)—E. III (A)/66, dated 3rd August, 1967.

(iii) *Power to incur Contingent Expenditure*

Some of the procedural and other restrictions contained in Annexure to Schedule V of the D.F.P. Rules, 1958, in regard to certain items of Contingent expenditure are liberalised as indicated in Appendix II, so that expenditure on such items can be incurred by the Ministries without having to consult the Finance Ministry.

IV. INTERNAL WORK STUDY UNITS

A Work Study Unit shall be set up in each Ministry/Deptt. which will function directly under the Secretary. The strength and composition of the Unit may be settled in consultation with the Staff Inspection Unit. It will be the function of the Internal Work Study Unit :

- (i) to study the organisational structure, methods to work and procedure of the Ministry/Deptt. with a view to suggest measures for reform so as to improve the efficiency of the organisation ;
- (ii) to study the staffing of the establishments under the Ministry/Deptt. with a view to suggest economy in staff consistent with administrative efficiency;
- (iii) to evolve standards of performance and norms of work relating to jobs peculiar to the Ministry/Department.

The Internal Work Study Units should draw up cyclical programmes for conducting studies and each cycle should ordinarily be completed in a period of about three years. They should also send copies of their programmes and their reports to Staff Inspection Unit. Staff Inspection Unit may issue separate instructions regarding the methodology to be adopted in conducting work studies and the form of reporting the results thereof.

The Staff Inspection Unit of the Ministry of Finance will continue to conduct its studies in any Ministry/Deptt. in accordance with its programmes, and the standards evolved by it for jobs common to several Ministries/Depts. will be made available to all Ministries. Norms/standards evolved by the Internal Work Study Units for jobs pertaining to their Ministries will be subject to review by the Staff Inspection Unit. In suitable

cases, other studies conducted by the Internal Work Study Units will also be subject to test check by Staff Inspection Unit.

## V. REPORTING ARRANGEMENTS

### (a) *Staff Returns*

Para 11 of this Ministry's O.M. dated 1st June, 1962, envisages the submission by the Ministries to the Finance Ministry half-yearly statements showing the sanctioned strengths at the end of each half-year and the increases/decreases over the previous return, along with brief reasons explaining the variations. The form of this return was subsequently revised in this Ministry's O.M. No. F. 10(29)—E—(Coord)/65, dated 29th October, 1965. With a view to further strengthen these arrangements for reporting to Finance in regard to the exercise of the delegated financial powers by the Ministries it has been decided, in modification of the existing orders, that the staff statements should in future be furnished to the Associate Financial Advisers *quarterly* (instead of half-yearly) as in the revised amplified proforma at Appendix III. The revised form shall be brought into force with effect from the return for the quarter ending 31st December 1968. 'Nil' reports should also be furnished in respect of offices which have nothing to report for any quarter. The return for the half-year ending the 30th September, 1968, may, however, be furnished in the old form to avoid any dislocation in the timely submission of these statements.

These quarterly staff returns are to be furnished in *duplicate* to the Associate Financial Adviser as far as possible in a consolidated form within a month of the end of the quarter to which the return relates. In the case of Ministries having a large number of subordinate offices under them, which may thus require a longer period for the collection and consolidation of the data, the report relating to the subordinate offices alone may be furnished a little later, within a period of six weeks of the end of the quarter concerned.

In regard to each quarterly staff statement, an acknowledgement may be obtained by the Ministry concerned from the Finance Ministry and carefully preserved. Where statements are not received by the due dates, the attention of the concerned Secretary will be drawn thereto by the Associate Financial Adviser

for ensuring prompt action. If this does not result in the submission of the statements within a month, the scheme of delegation of powers in so far as it relates to the creation of posts will be deemed to be suspended in respect of that Ministry and formal sanction of the Finance Ministry will be required for its restoration.

(a) *Other Returns*

The Ministries should furnish to the Finance Ministry copies of sanctions falling under the following categories :

- (i) Contingent expenditure and miscellaneous expenditure above the limit of Rs. 2,500 recurring per annum in each case and Rs. 10,000 non-recurring in each case.
- (ii) Excess expenditure over the estimates of a scheme as accepted by the Finance Ministry.
- (iii) Re-appropriation of funds in exercise of the powers delegated in para III(i) of this annexure.
- (iv) Introduction of a new item in a scheme even if it does not result in substantial variation of the scheme as accepted by the Finance Ministry.

A half-yearly certificate should also be furnished to the Finance Ministry by the 31st October and 30th April each year in respect of the half-years ending 30th September and 31st March respectively, confirming that all copies of sanctions falling under the specified categories have been sent to the Finance Ministry.

#### VI. GRANTS AND LOANS

Ministries have full powers to sanction grants and loans subject to the rules and principles being prescribed in consultation with the Finance Ministry. In cases where such rules relating to specific types of grants/loans or groups of them have not been formally issued, it may be done as soon as possible to avoid unnecessary references to the Finance Ministry.

#### VII. GENERAL

In exercising the delegated powers it is to be ensured that funds are available by valid appropriation/re-appropriation within the Ministry's powers. In all cases the availability of funds within a sanctioned grant should be certified by the officer



incharge of the Accounts and Budget Branch before sanctions are issued under delegated powers. Where savings can, under the rules, be utilised only with the concurrence of the Finance Ministry, no expenditure should be incurred under the delegated powers in anticipation of the concurrence of the Finance Ministry to the utilisation of the savings. It should generally be ensured that the progress of expenditure is closely watched by each Ministry so that the expenditure is kept within the sanctioned budget and that there are no wide variations between the budget and actual expenditure in a year.

Ministries having attached and subordinate offices should in each case review, in consultation with their I.F.A., the adequacy of the financial powers with the Heads of Departments/ Offices under them and re-delegate their own powers to the extent necessary, as visualised in paras 9 and 10 of this Ministry's O.M. dated the 1st June, 1962. Copies of orders issued should be endorsed to the Ministry of Finance also for information. It is also important that self-contained schedules of powers of subordinate authorities are drawn up and/or brought up-to-date.

#### ITEMS OF WORK TO BE HANDLED BY INTERNAL FINANCIAL ADVISERS

The I.F.A. will be in overall charge of Budget and Accounts Section in addition to the internal Finance Section. It will be his duty :

- (i) to ensure that the schedule for preparation of budget is adhered to by the Ministry and the Budget is drawn up according to the instructions issued by Finance Ministry from time to time;
- (ii) to scrutinise budget proposals thoroughly before sending them to Ministry of Finance ;
- (iii) to see that complete departmental accounts are maintained in accordance with the requirements under the G. F. Rs. It should, in particular, be ensured that the Ministry not only maintains accounts of expenditure against the Grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred by the subordinate offices so that the Ministry has a complete month to month picture of the entire expenditure falling within its jurisdiction ;

- (iv) to watch and review the progress of expenditure against sanctioned grants through maintenance of necessary control Registers and to issue timely warnings to Controlling authorities where the progress of expenditure is not even ;
- (v) to ensure the proper maintenance of the Register of Liabilities and commitments as required under the G. F. Rs. to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings ;
- (vi) to screen the proposals for supplementary demands for grants;
- (vii) to formulate the foreign exchange budget of the Ministry and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic from time to time.
- (viii) to advise the administrative Ministry on all matters falling within the field of delegated powers. This includes all powers other than those devolving on a Ministry in its capacity as Head of office. It has to be ensured by I.F.A. that the sanctions issued by administrative Ministry in exercise of delegated powers clearly indicated that they issue after consultation with I.F.A.;
- (ix) to identify, in particular, specific savings in cases of creation of posts and to maintain Register for this purpose;
- (x) to scrutinise proposals for re-delegation of powers to subordinate authorities;
- (xi) to keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stage;
- (xii) to associate himself with the evaluation of progress/performance in the case of projects and other continuing schemes, and to see that the results of such evaluation studies are taken into account in the budget formulation;
- (xiii) to watch the settlement of audit/objections, Inspection Reports, draft audit paras, etc.;
- (xiv) to ensure prompt action on Audit Reports and Appropriation Accounts, Reports of P.A.C., Estimates

Committee and Committee on Public Undertakings;

- (xv) to screen all expenditure proposals requiring to be referred to Finance Ministry for concurrence or comments ;
- (xvi) to ensure regular and timely submission to Finance Ministry of quarterly staff statements and other reports and returns required by Finance.

## APPENDIX II

### **The Government of India (Consultation with Financial Adviser) Rules 1968**

In exercise of the powers conferred by Clause (3) of Article 77 of the Constitution and in supersession of all previous orders on the subject, the President hereby makes the following rules in respect of consultation with the Financial Advisers for the more convenient transaction of the business of the Government of India in financial matters.

#### *Short Title and Commencement*

1. (1) These rules may be called "The Government of India (Consultation with Financial Adviser) Rules, 1968."
- (2) These rules shall come into force at once.

#### *Definitions*

2. In these rules unless the context otherwise requires—
  - (a) "Department of the Central Government" means a Ministry or a Department of the Central Government as notified from time to time and includes the Planning Commission, the Department of Parliamentary Affairs, the President's Secretariat, the Vice-President's Secretariat, the Cabinet Secretariat and the Prime Minister's Secretariat.
  - (b) 'Financial Adviser' includes Additional Financial Adviser, Joint Financial Adviser, Deputy Financial Adviser, Assistant Financial Adviser, Deputy Assistant Financial Adviser or any other officer appointed in a Ministry/Department to perform the duties and functions of Financial Adviser.
  - (c) 'Finance Ministry' means the Finance Ministry of the Central Government.
  - (d) 'Head of a Department' in relation to an office or offices under its administrative control means an authority specified in Schedule I to the Delegation of Financial Powers Rules, 1958.

*Financial Adviser for Each Department*

3. (i) There shall be attached to each Department of the Central Government an Officer designated as Financial Adviser for the more convenient transaction of the business in relation to financial matters—

*Provided* that the President may in his discretion appoint an officer to work as Financial Adviser for two or more Departments.

- (ii) The appointment of an officer as Financial Adviser will be made in consultation with the Finance Ministry.

*Finance and Accounts Work of Department*

4. The Financial Adviser will be in overall charge of the work relating to the finance, budget and accounts of the Department to which he is appointed ; and all such work will be performed under his superintendence.

*Consultation in Delegated Field*

5. Subject to the general or special orders, all financial powers delegated to Departments of the Central Government, shall be exercised in consultation with the Financial Adviser. *Provided* that nothing in this rule shall be construed as applying to the exercise by an officer of the Secretariat office of the Department of powers to incur expenditure as a head of office.

6. The Financial Adviser will be consulted on all proposals for the release of funds for investment as equity capital of statutory corporations/companies, wholly owned by the Central Government.

*Grants and Loans*

7. All proposals for the sanction of grants-in-aid (including scholarships) and loans will be referred to the Financial Adviser before the issue of final orders. He will in particular be consulted on the financial aspects of all transactions relating to loans.

*Indents, Contracts and Purchases*

8. Subject to the provisions of the General Financial Rules governing the purchase of stores for the public service, a

Department of the Central Government will, before sanctioning expenditure for purchases and for execution of contracts, consult the Financial Adviser.

### *Trading Operations*

9. (1) All proposal

- (a) for the purchase of commodities intended not for Government consummation, but for sale or issue to the public, State Governments or any other authority;
- (b) for the fixation of prices in respect of direct trading operations of Government; and
- (c) from Government companies and undertakings which may be referred to the Government for fixation of prices for their products or stocks;

shall be referred to the Financial Adviser for his views, before being referred to the Finance Ministry.

(2) If such proposals are, under the Delegation of Financial Powers Rule 1958, within the competence of a Department of the Central Government, the Financial Adviser shall be consulted on these proposals.

### *Important Communications to be Shown to Financial Adviser*

10. (1) Without prejudice to the other provisions contained in these rules, all important communications/references received from or addressed to the following authorities shall be, on their receipt or before issue, as the case may be, shown to the Financial Adviser :

- (i) The Ministry of Finance;
- (ii) The Comptroller and Auditor General, Accountants General and the Accounts/Audit Officers;
- (iii) The Financial Committees of Parliament, namely, the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings.

### *Cases of Serious Financial Irregularity or Relaxation of Financial Rules*

(2) Any other communication/reference having a financial implication, which a Department may in its discretion consider to be important, shall also be shown to the Financial Adviser.

11. The reports or references on the following types of cases shall on their receipt be shown to the Financial Adviser who shall also be consulted before final orders are passed :

- (i) A case involving serious contravention of financial rules or a serious financial irregularity.
- (ii) A proposal to sanction relaxation of, or deviation from, any financial rules or principles.
- (iii) A proposal for write-off of a loss or abandonment or remission of revenue.

#### *Views to Form Part of Permanent Record*

12. The views of the Financial Adviser shall be brought to the permanent record of the Department to which the case belongs and shall form part of the case.

13. A Department of the Central Government shall refer to the Financial Adviser all proposals requiring consultation with the Finance Ministry. His comments/views will be obtained before such a case is referred to the Finance Ministry.

#### *Procedure for Consultation*

14. When consultation with Financial Adviser is necessary in a case under these Rules or under any general or special orders, the following procedure will be followed :

- (i) An Officer in the Department of the Central Government shall refer the case to the Financial Adviser for his views. On the receipt of his views, the case shall, subject to the provision of clause (ii), be disposed of in accordance with the advice of the Financial Adviser after reference of the case, if necessary, to the Secretary/Minister in charge of the Department.
- (ii) In case the Department is unable to accept the advice of the Financial Adviser, the case shall be referred to the Secretary in charge of the Department who, if he does not agree with the advice tendered by the Financial Adviser, shall record the reasons therefor and pass necessary orders.

#### *General Duties and Functions*

15. In particular and without prejudice to the generality of the provisions contained herein, the Financial Adviser will

have the following duties and functions in relation to a Department of the Central Government :

- (i) He will be responsible for ensuring that the budget estimates are properly framed, that the time schedule for the preparation of the budget is scrupulously followed by the Department and that the orders and instructions issued by the Finance Ministry in respect of the preparation of budget and matters connected therewith are observed.
- (ii) He will scrutinise the budget proposals thoroughly and assist the Secretary of the Department in the discharge of this responsibility.
- (iii) He will examine and advise on all schemes of new expenditure for which it is proposed to make provision in the estimates.
- (iv) He will ensure the maintenance of proper accounts as required by the rules or orders on the subject.
- (v) He will obtain periodical reports of the progress of expenditure, watch and review the progress of expenditure against the sanctioned grants and issue such instructions from time to time to the controlling officers as may be necessary. For this purpose he will ensure that necessary control registers under the rules are maintained by the Department.
- (vi) He will take necessary steps to ensure the timely surrender of anticipated savings in budget provisions/funds by the Department/the controlling officers as the case may be, as early as possible during the financial year.
- (vii) He will scrutinise the proposals for supplementary demands for grants including the proposals for advances from the Contingency Fund and also advise the administrative Ministry on the need for obtaining such supplementary grants or advances as may be necessary.
- (viii) He will keep himself in regular touch with the audit objections and the inspection reports of the Audit and their early settlement, etc. He will be actively associated with the processing and settlement of the audit paras in the Department.



- (ix) He will take speedy and timely action on the Audit Reports, Appropriation Accounts and the reports and observations of the Financial Committees of Parliament, namely, the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings. He will keep himself in touch particularly with the briefs prepared for such committees or with the replies to the questionnaires issued by them.
- (x) He will be actively associated with the preparation of the foreign exchange budget of the Department.
- (xi) He will scrutinise all proposals for the redelegation of powers to Heads of Departments/subordinate authorities under the administrative control of the Department.
- (xii) He will ensure the regular and timely submission to the Finance Ministry of the prescribed reports and returns.

### **Miscellaneous Provisions**

#### *Communication of Sanction*

16. (1) Whenever an order sanctioning expenditure or advance of public money or write off of the loss or abandonment or remission of revenue or a relaxation of financial rules is issued by a Department of the Central Government in exercise of the powers conferred on it, in consultation with its Financial Adviser, it shall be communicated to the audit officer or officers concerned by the Department concerned and it will be mentioned therein that the sanction is issued in exercise of the powers of the Department concerned in consultation with the Financial Adviser.

(2) The communication of sanction to audit where such sanction requires the concurrence of the Finance Ministry will be regulated by the orders contained in the Delegation of Financial Powers Rules, 1958, as amended from time to time.

#### *Financial Adviser to be Consulted Before Issue of Orders*

17. Where consultation with the Financial Adviser is necessary under those rules or under any general or special orders, it shall take place before the issue of orders or before the submission of the proposals either to Minister/Secretary in the Department concerned or to the Cabinet.

## ANNEXURE 1 TO THE APPENDIX II

Liberalisation of the powers of Ministries, etc., for incurring contingent expenditure

S. No.	Item	Existing limitations	Liberalisation now decided
(1)	(2)	(3)	(4)
1.	Conveyance hire : (i) Hiring of taxis for inter-State/ international Conferences.	The general procedure on such occasions should be prescribed in consultation with Finance.	The condition of consultation with Finance will be removed. Ministries will be free to issue sanctions in consultation with their I.F.As.
	(ii) Reimbursement of taxi or other conveyance charges to Gazetted Government servants.	Power vested in Ministries and Heads of Departments only.	Power to Heads of Offices also to sanction such reimbursement.
2.	Fixture & Furniture— Purchase and Repairs.	Ministries—Full Powers. Head of Dep'ts. — Rs. 25.00 per annum per office.	Full powers for Heads of Departments.
3.	Freight & demurrage/ wharfage charges.	Freight charges : Ministries have full powers but air-lifting of stores can be sanctioned only in consultation with Finance.	Freight charges : The condition of consultation with Finance will be removed. The powers should be exercised in consultation with I.F.As.

(1)	(2)	(3)	(4)
		<i>Demurrage/Wharfage charges :</i>	<i>Demurrage/Wharfage charges :</i>
		Ministries have full powers but Heads of Departments have powers up to Rs. 250 in each case.	The powers to be given to the Heads of Departments may be as decided by the Ministries.
4.	Hire of office furniture, electric fans, heaters, etc.	Ministries — Full powers. Heads of Depts. — Rs. 250 P.A. per office.	Full powers to Heads of Departments.
5.	Repairs & alterations to hired & requisitioned buildings.	Rs. 2,500 per annum (non-recurring) Rs. 500 per annum (recurring).	The ceiling for non-recurring expenditure will be raised to Rs. 5,000 per annum.
6.	Posts & Telegraph charges—Commission on Money Orders for remittances to Scholarship-holders, contractors, etc.	Sanction of authority not lower than the Head of Department is required.	Power to Heads of offices also to sanction such expenditure subject to other conditions laid down in D.F.P. Rules.
7.	Printing and binding.	<i>Where work is executed through C.C.P.S.</i> Heads of some Departments have powers only up to Rs. 1,000 P.A. in each case.	<i>Where work is executed through C.C.P.S.</i> Full powers.

		<i>Other cases for emergent local printing and binding.</i>		<i>Other Cases</i>	
		Ministries—Rs. 1,000 P.A.	Ministries	—Rs. 2,000 P.A.	
		Heads of Deptts.—Rs. 500 P.A.	Heads of Deptts.	—Rs. 1,000 P.A.	
		Heads of offices—Rs. 200 P.A.	Heads of offices	—Rs. 500 P.A.	
		Ministries — Full powers.	Powers to Heads of Departments		
		Heads of Deptts.— Nil	as may be delegated by Ministries.		
8.	Rewards fees, bonus etc. (other than fees or honoraria granted to Government servants under service Rules).				
9.	Local purchase of petty stationery stores.	Ministries have full powers to incur expenditure in consultation with C.C.P.S. but Heads of Departments have powers up to Rs. 5,000 P.A.	Heads of Departments can exercise such powers as may be delegated by Ministries.		
10.	Local purchase of rubber stamps and office seals.	Rs. 100 per annum subject to a limit of Rs. 20 at a time.		Full powers.	

## ANNEXURE 1 TO THE APPENDIX II

Statement showing the particulars of posts sanctioned/abolished during the quarter ending @.....

PROFORMA—A : For Ministries and Attached Offices

Name of Ministry/Attached Office .....

Sl. No.	Nomen- clature of posts Rs.	No. of posts created during the quarter	Period for which created	Activi- ties for which posts have been created	How expendi- ture is met	Whether work- study Unit was consulted before creation of posts.	No. and details of posts abolished during the quarter under report.	Remarks.*
		Whether With under con- powers currence of Min. Deptt. Ministry			Whether specific budget provision exists or if by location of savings, the particulars of savings earmark- ed during current year and also in subsequent years if the expenditure is of a continuing nature.	Where the find- ings of the Work Study Unit were not accepted or modified the particulars and reasons therefor may be briefly stated.		

1	2	3	4	5	6	7	8	9	10	11
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@Note 1 : The statement will be for the quarter ending 31st March, 30th June, 30th Sep., and 31st December.

\*Note 2 : If any Work Study of the office has been made by S.I.U. recently, an indication of this as also the action taken may be given in the Remarks column.

Note 3 : If any standard scale is laid down, e. g., personal staff of Ministers, Class IV staff etc., an indication thereof may be given in the Remarks Column against the relevant items.

contd.

## PROFORMA-B : For Subordinate Offices.

Name of Office : .....

No. of posts  
created during  
the quarter.S. No.  
Category of  
postWith the concurrence  
of F.A.Within the delegated  
powers of Min./  
Department.Period for which posts have  
been sanctioned.Activity for which posts have  
been created.

How expenditure is met

Whether specific budget provi-  
sion exists or if by location of  
savings, the particulars of the  
savings earmarked during the  
current year and also in sub-  
sequent years if the expenditure  
is of a continuing nature.Whether the posts were justified  
according to the standards laid  
down by SIU or any norm in  
force in the Department.Whether Work Study Units  
were consulted, where they  
exist, before creation of posts.  
Where the findings of work  
study were not accepted or  
modified, the reasons therefor  
may be briefly stated.Number and details of posts  
abolished during the quarter.

Remarks.

1 2 3 4 5 6 7 8 9 10 11

## 1. Class I

- (i) Maximum does not exceed Rs. 1,250 p.m.  
(ii) Maximum exceeds Rs. 1,250.

## 2. Class II

## 3. Class III

- (i) Clerical posts.  
(ii) Supervisory non-technical posts.

## 4. Class IV

- (i) Office peons/daftries.  
(ii) Others.

1	2	3	4	5	6	7	8	9	10	11
<p><i>Note 1 :</i> The statement should be prepared separately for each administrative office. In respect of operative offices, the statement may be prepared for a group of offices Circle-wise or Division-wise. Statements relating to all the offices under a single Department. <i>e.g.</i>, Incom-tax Department, Customs Department, <i>etc.</i>, should be collected together and furnished in one lot, along-with a consolidated abstract and with an indication that the abstract is complete and covered all the concerned subordinate offices.</p> <p><i>Note 2 :</i> If any study of the office has been made by S.I.U. recently, indication of this as also of the action taken thereon may be given in Remarks column.</p>										

